

THE BUREAU OF LAND MANAGEMENT REFOREST-
ATION PROGRAMS: PLANS AND PROPOSALS
FOR ATTACKING BACKLOGS AND BOOK-
KEEPING PROBLEMS

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The Bureau of Land Management ReFor...

HEARING
BEFORE THE
SUBCOMMITTEE ON REGULATION, BUSINESS
OPPORTUNITIES, AND TECHNOLOGY
OF THE
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

PORTLAND, OR, MAY 9, 1994

Printed for the use of the Committee on Small Business

Serial No. 103-102



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THE BUREAU OF LAND MANAGEMENT RE-FORESTATION STAND ENHANCEMENT PROGRAMS: PLANS AND PROPOSALS FOR ATTACKING BACKLOGS AND BOOKKEEPING PROBLEMS

MONDAY, MAY 9, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON REGULATION, BUSINESS
OPPORTUNITIES, AND TECHNOLOGY,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at Portland City Hall, 1220 S.W. Fifth Avenue, Portland, Oregon, the Honorable Ron Wyden (chairman of the subcommittee) presiding.

Chairman WYDEN. The hearing of the Subcommittee on Business Opportunities and Technology will come to order. Today the subcommittee continues its inquiry into the management of reforestation programs on public timberlands in the Pacific Northwest. Few public investments are as important or create the level of long term economic, environmental benefits as the tree planting and timber stand improvement programs managed by the U.S. Forest Service and the Bureau of Land Management.

Now, according to the former Interior Inspector General, James Richardson, the Bureau of Land Management is an agency which is, and I quote, "adversely impacted by inherent organizational inefficiencies" and is "a classic example of an organization that has often failed to accomplish its mission effectively." Today the subcommittee intends to look specifically at the Bureau of Land Management's reforestation programs, where problems have abounded for years.

Missing the biological window for planting trees, fertilizing new plantations and conducting pre-commercial thinning can mean loss of hundreds of millions of board feet and ultimate harvest from these lands. These continuing failures involve thousands of acres of the region's most productive timberlands being managed by the Bureau of Land Management.

This subcommittee is especially troubled by two recent reports that were done by the Inspector General of the Department of Interior. The first issue in March estimates that \$5.4 million in Oregon forest maintenance funds were diverted to other uses. The second, issued just 2 weeks ago, estimated that the Oregon Office of the Bureau of Land Management was losing between \$2.5 million and \$3.5 million in a non-authorized airplane lease purchase deal. If

there is an Achilles heel for investigators tracking what the Bureau of Land Management does and how it spends its money, it seems to be this agency's bookkeeping.

As current Interior Inspector General Joyce Fleischman wrote to the subcommittee on April 19, and I quote, "Because of improper accounting practices noted in our reports, the Bureau cannot accurately account for individual program costs of any program, including full time employee costs associated with its forestry program." The Inspector General's reports substantiate that these failures pose a clear and present danger to the future of many timber jobs in our State. This agency has got to pull its money out of bloated management systems, employee gymnasiums, and luxury aircraft, and put it where it's needed, and that's the critically important timberlands of western Oregon.

The audit cited problems which had developed well before the appointment this winter of Ms. Elaine Zielinski, the State's new Bureau of Land Management director. We are pleased to have Ms. Zielinski with us today. I wish to note that I am encouraged by her start. We have had a number of preliminary discussions that indicate that she wishes to deal seriously and constructively with the long standing problems of the Bureau.

We would also like to note that Ms. Zielinski wasted no time in getting rid of this airplane. Although I do not wish to sugar-coat the backlog problems, we will get into them in some detail, I am very hopeful that we can forge a new partnership today toward improving forestry in our State's Bureau of Land Management timber program.

Let us make no mistake. These lands must remain a productive part of the region's timber base. Mr. Jerry Rust, chairman of the Lane County Board of Commissioners and the representatives of a major Oregon and California railroads lands county will explain the importance of timber revenues from the Bureau of Land Management manage for us. As Mr. Rust will testify, the quality of deforestation on these lands goes right to the budget bottom line for our counties. Revenues from these timber sales fund schools, roads, and other vital public services.

The forest environment as well as the timber is important to the people of our State. We will hear testimony from Mr. Josh Bratt representing the Oregon Environmental Council on the importance of reforestation work for healthy forest habitats.

Finally, these programs represent more than timber in the future. They are also representing jobs today. Mr. Jack Desmond, executive director of the Northwest Reforestation Contractors Association, will describe the great stakes for small businesses involved in site preparation, tree planting, and tree thinning.

Now before we begin with today's witnesses, I wish to briefly review the numbers from the most recent Inspector General's audit on Bureau of Land Management timber management programs. The Inspector General details backlogs in the following areas: Site preparation, 4,600 acres; tree planting, 3,800 acres; plantation maintenance, 43,800 acres; tree thinning, 60,000 acres; fertilization, 162,000 acres; and timber stand conversion, 6,600 acres.

To put this into perspective, the Inspector General estimates that lost timber harvest volumes due to these backlogs may amount to

1.7 billion board feet. I would like to note that this is a significantly higher number than anticipated total harvest volume for the entire Pacific Northwest under the Clinton administration's Federal forest management plan for a year.

Now, I would like to point out, the State Bureau of Land Management office has not in the past been always well served by the Agency's national office. In 1993, the Oregon Bureau of Land Management notified national headquarters that the reforestation and stand enhancement program would need \$63 million to fund all reforestation activities. The national office, however, requested only \$33 million. According to the Inspector General, this underfunding resulted, and I quote, "in increased backlogs." Obviously any budget request like this one has to be measured against other agency and national priorities. It is unacceptable, however, that this agency, which for years has ignored numerous Inspector General audits, citing the need to reform its expensive, triple tiered national management system should be allowed to drain the lifeblood from Oregon forestry programs to pay for an outdated, outmoded and out-sized bureaucracy.

Tree planting programs in our State must not be sacrificed to pay for a bloated management system centered in Washington, DC. Now, Ms. Zielinski is going to outline today accounting changes which will free up \$1 million for additional direct investment in forestry programs, and we also hope to hear about agency streamlining actions which could save another \$5 million in annual spending, monies that could be reinvested in timber management.

I wish to State again that these are sensible suggestions from Ms. Zielinski and a welcome change in policy and philosophy. I believe we'll also hear from our new director about the possibility that Congress might invest another \$50 million over the next several years of reforestation management and that this investment at this time would pay a particularly dramatic return.

[Chairman Wyden's statement may be found in the appendix.]

Chairman WYDEN. So, we are very pleased to be able to have this hearing. It is the practice of our subcommittee to swear all witnesses. Let us begin, if we might, with Ms. Zielinski, if she will come forward and we will take care of the formalities here. Ms. Zielinski, do you desire to have any of your associates there at the Bureau of Land Management participate with you this morning?

Ms. ZIELINSKI. Yes, I would. If you have no objection, I'd like to have Bill Bradley, who is the acting director for lands renewal resources and Darwin Priebe, who is our budget officer.

Chairman WYDEN. We would be happy to have both of you gentlemen please come forward. Before I have you all sit down, we do swear our witnesses. Do any of you three have any objection to being sworn as a witness?

Ms. ZIELINSKI. No.

Chairman WYDEN. Please raise your right hand. Do you solemnly swear that the testimony you're about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BRADLEY. Yes.

Mr. PRIEBE. I do.

Ms. ZIELINSKI. Yes.

Chairman WYDEN. Well, we welcome all of you. Let me thank you again, Ms. Zielinski, for the cooperation and the opportunity to discuss these matters with you on a number of occasions. I note that this is your first Congressional appearance in your new position, undoubtedly what will be many as part of all of the discussion with appropriations committees and the like. We welcome you. We're going to make your prepared statement a part of the record in its entirety, and please proceed in any way that you feel comfortable.

TESTIMONY OF ELAINE ZIELINSKI, OREGON DIRECTOR, U.S. BUREAU OF LAND MANAGEMENT, PORTLAND, OREGON

Ms. ZIELINSKI. Thank you, Congressman Wyden. It's a pleasure for me to be here, and as you said, it is my first appearance here, but I'm looking forward to having a good dialogue with you and with other committees that we do business with.

I'd like to again just make a few remarks here in my prepared statement. Again, I appreciate the opportunity to appear here today. I'm here to discuss issues relating to the reforestation and forest development efforts of the Bureau of Land Management in western Oregon and respond to some of the statements in the recent final audit report of the Office of Inspector General.

A major question that has been raised by the Inspector General is the tree planting backlogs that have accumulated during the past few years and whether they have resulted from lack of funding. The tree planting backlogs are not primarily due to funding shortfalls. Unplanted acres are part of a normal reforestation operation. Seedling availability, operation scheduling, weather conditions, and air quality constraints all affect the timing of treating acres. These factors are anticipated and accounted for in allowable harvest models.

Natural causes have contributed to the problem of eliminating the tree planting backlogs. For example, the continuing drought has required that expensive special treatments be undertaken to maintain adequate stocking levels in new plantations, reducing the availability of funds to address backlogs. Similarly, major wildfires have added to reforestation workloads, especially with respect to subsequent vegetation maintenance workloads.

The BLM has also been limited in its choice of tools to perform the necessary field operations. The favorite site preparation method is broadcast burning, but limited burn opportunities under State air quality regulations have required that expensive replacement methods be employed, such as hand piling and slashing with chain saws.

Other vegetation management tools, particularly herbicides, are unavailable, even on a limited scale, requiring the use of these far more costly methods. The BLM is systematically eliminating within available funding limits. The existing backlog of precommercial thinning and fertilization consistent with current and anticipated resource management plans and objective included in the President's forest plan.

First priorities for treatment will be planting lands that have been harvested or damaged by wildfire, followed by growth enhanc-

ing treatments on land allocated to timber production and to areas identified as needing treatment for ecosystem restoration purposes.

The BLM will identify funding needs to systematically eliminate the backlogs and to stay current with treatments that are consistent with the President's forest plan and resource management plan allocation and objectives. The next opportunity to request funding priorities will be in the fiscal year 1996 budget process. However, these needs must be considered in the context of overall Federal spending needs.

The fiscal year 1995 BLM budget request for reforestation and forest development is \$23,036,000. With this level of funding, we would be able to accomplish the highest priority work which includes site preparation, tree planting, and plantation maintenance. The Inspector General disagreed with the method used by BLM to allocate administrative expenses within program areas. The BLM specifically excluded accounts such as land acquisition projects under the land and water conservation fund, construction projects and emergency fire fighting costs, in an attempt to get as much project specific money as possible on the ground in those accounts.

The western Oregon and California lands, the O&C account, does not have a specific line item designed to pay the majority of the overhead costs, similar to the management of lands and resources or MLR account. However, the administrative line item in the MLR account does pick up bureau-wide costs for space, postage and telephones for the O&C account.

We agree that prior to fiscal year 1993, the overhead allocations in western Oregon were directed to some degree toward the forest management accounts. In February of 1992, the western Oregon districts and State office management met to address this concern and develop objectives regarding the forest management budget allocations. A team was appointed to identify recurring indirect costs that cannot be charged exclusively to a particular program and to develop a method that would assure that all programs cover those costs using a prorated share process.

Our review of fiscal year 1993 costs shows that the method developed did improve the equitability of the indirect cost spread. In addition, in fiscal year 1995, BLM will consider excluding contracts for tree planting, stand maintenance, and seedlings from the prorate share process that is currently being used. This has the potential for making an additional \$1 million available for project work.

The BLM is pursuing ways to measure performance and insure accountability. Our goal is to develop effective performance measures that will track actual progress for which the agency will be held accountable. We are committed to managing change effectively and to improving business practices, especially in the areas of budgeting and accounting. The BLM has proposed to the Congress in its 1995 budget justification a simplification of its budget structure. This will allow BLM to focus its attention on overall resource management rather than the administration of discreet program activities. This is consistent with the administration's ecosystem based approach to land and natural resource management.

In addition, BLM will begin a major re-engineering of its financial processes on May 16, 1994. As part of this effort, BLM will simplify its financial reporting process and ascertain the most ef-

fective and equitable way to distribute administrative costs. We believe these efforts will significantly reduce the funds being used for program administration and enable us to develop an accounting system along the lines suggested by the Inspector General.

An earlier Inspector General report raised the separate issue of the triple tiered management structure of the BLM, and this is being addressed as a bureau-wide issue. Oregon, along with other States, is currently looking at organizational streamlining options which will enable us to deal more efficiently with the challenges of ecosystem based management. In addition, we are attempting to design organizational structures which require less administrative and management support, thereby allowing more funds to be directed to on the ground activities. Final organizational decisions will be coordinated on a bureau-wide basis and should be approved within the next 3 weeks.

This completes my prepared statement. I would be pleased to answer any questions.

[Ms. Zielinski's statement may be found in the appendix.]

Chairman WYDEN. Very good. Would you like to have any of your associates make any comments?

Ms. ZIELINSKI. No, I think at this time we'll just respond to any questions you might have.

Chairman WYDEN. Very good. That's helpful, and I appreciate it. I think you have a very tough job ahead of you. I think you know that my real interest is seeing the Bureau of Land Management in Oregon turn over a new leaf. I want to see you shake this office up because I think that the people of our State are very frustrated about reading these Inspector General reports. They read these Inspector General reports and they hear about a press relations persons somewhere or gymnasium somewhere or an airplane being used, and they're saying to themselves, look, this is money that's being wasted. It's money being diverted that could go in to the forestry program and put people to work and make sure that we've got these trees 40 years from now. So, I more than anything want to see you really turn this agency around, and I've appreciate a number of the ideas that you've already talked about with me informally, and I want to go into some of those this morning.

Let me maybe start by trying to put this into some perspective because I think that particularly folks have trouble sorting through the backlog issues and the board feet issues and the money that we're talking about, and I just want to kind of get this on the record. Now, the Inspector General detailed backlogs of 4,600 acres in site preparation, 3,800 acres in tree planting, 43,000 acres in plantation maintenance, 60,000 acres in tree thinning, fertilization of 162,000 acres, timber stand conversion backlog, 6,600 acres. I know you've only been there a month. Do you essentially think that as an accurate characterization by the Inspector General?

Ms. ZIELINSKI. Yes, I think that while we could probably update those acres because obviously they were kind of a snapshot in time, but I think that we would certainly agree with the Inspector General that we do have backlogs in particularly the growth enhancement area and that those backlogs have not been reduced.

Chairman WYDEN. I appreciate that. I'm going to ask some questions about that. I just want to state for the record so the folks un-

derstand this that those backlogs according to the Inspector General translate to a lost volume of about 1.7 billion board feet, and that's actually more than the President in his whole program anticipates generating in a year, and the Inspector General says that if we don't turn this around, we could be losing \$200 million in lost revenue per year as well, again annualized out over the harvest. So, this is very, very serious for our State.

Why don't we start then by having you outline, if you might, what you think the principal obstacles are at this point for the agency in terms of trying to turn around the backlog situation?

Ms. ZIELINSKI. OK. As I mentioned, we definitely agree that in the growth enhancement area, particularly that the backlogs exist and have not been reduced. Just to put that in perspective, I think that I need to explain just a little bit about the reforestation part of it, plus the growth enhancement. Again, in the reforestation area, I think some of those acres that are characterized as a backlog, as I mentioned, we consider those as kind of a normal operation, and I don't think there is disagreement on that issue, that those are temporary in nature, that there are legitimate reasons why there may be some acres that could not be replanted as soon as we would have liked to, and those things are not—the availability of seedling species and types or the site preparation or contracting problems, those sorts of things. We definitely move those areas into the highest priority category for the next year. I don't think that is the big issue. I do think the issue that you are raising is more to the growth enhancement part. Is that correct, Congressman?

Chairman WYDEN. Yes, and we'll talk specifically about it—based on what I had heard you all say in the past, you had problems on the fire situation, you had problems in terms of funds, possibly availability of contractors. Are those some of the factors that have been a problem for you?

Ms. ZIELINSKI. I'd say the major problem for us has been in the area of reforestation maintenance, and that one is an area that we have not had adequate funds to deal with. What I mean there is protection of seedlings that we've put in the ground, that is, protection from animals, from competing vegetation. Again, some of the reasons that we have the maintenance for survival issue is a really obviously important one to us. You know, you've gone through the expense of planting the trees in the ground. You need to make sure that they stay alive to protect that investment. This is a really high priority, but in a drought situation, especially like in the area of southern Oregon, the expense related to keeping those seedlings alive could take incredible chunks out of our budget. So, that has been an issue.

Alternative forms of site preparation or planting without site preparation has also caused an increase in costs. This is due to the increase in the post-planting maintenance that's required to be done. The vegetation control, as I mentioned, costs there are increasing because one reason is that we no longer have the availability of any herbicides. So, the alternatives that we use are much more expensive and costly. So, does that address some of your concerns?

Chairman WYDEN. Yes, that certainly outlines some factors. One of the things a number of the forestry experts have told us, disturbs them about the Inspector General's report, is the significant increase in tree thinning backlogs for approximately 43,000 acres in '89 to 60,000 acres in 1993. The forestry people essentially tell me that if you don't have that kind of tree thinning, it significantly reduced what you're going to have 40 years down the road. So, to the extent that we have backlogs in tree thinning, that seems to me to be an area with very, very significant costs with some serious problems down the road.

I gather that you accept the numbers of the Inspector General on the tree thinning issue?

Ms. ZIELINSKI. Well, I think—actually, I can't recall the exact numbers on that.

Chairman WYDEN. He says that we've got a backlog of 60,000 acres in tree thinning.

Ms. ZIELINSKI. OK. Can I have Bill Bradley respond to that? He's my numbers person.

Chairman WYDEN. Absolutely.

Mr. BRADLEY. Essentially the IG did identify 43,000 acres of backlog in '89. Then we had the excess receipt dollars that came on line in '90 and '91, and with those dollars, we treated 42,000 acres. But as trees grow, you have more acres that come into that biological window. We essentially precommercially thinned between acres 12 and 15 years of age. So, we had an additional 60,000 that became the right age for us to do precommercial thinning.

Ms. ZIELINSKI. So we're not funded to keep up and are accumulating, I guess, backlogs as we go because of the lack of funding.

Chairman WYDEN. Now, we've got the tree thinning backlog at 60,000 acres, and we all agreed that that's a serious kind of matter for the long term. Tell us what you need to fix it in terms of resources. I know you all don't get to wave your wand and have the U.S. Congress do everything that you would ask but clearly what we want to do is try to get a handle on what kinds of dollars are needed to handle some pretty significant backlogs.

Ms. ZIELINSKI. Exactly. OK, well I guess I could talk about elimination of backlog in general and as we internally have discussed, we do have some proposals to eliminate those backlogs by the year 2001. Essentially, the best case scenario, if we were to systematically eliminate all the backlogs in precommercial thinning, fertilization, and stand conversion, by the year 2001 we would need the following in fiscal year '96, '97 and '98 to treat what is referred to as matrix lands under the President's plan which are those lands that are basically available for commercial forests, and to treat the reserves, we would need an average of about \$8.5 million per year.

In fiscal year '99, 2000, 2001, to treat the late successional reserves, an average of \$5.5 million a year. Those would eliminate the backlogs. In order to keep ourselves current and not accumulate additional backlogs, we would need an additional \$4 million a year.

Chairman WYDEN. What does that come to then between now and 2001? I probably didn't write fast enough.

Ms. ZIELINSKI. Let's see, it would be \$8 million a year to treat the matrix and repairing for 3 years, so that would be 24 or 25. Then for the late successional, 3 years at 5½, would be 16½, and then \$4 million a year for 6 years. So, a total of \$63 million.

Chairman WYDEN. To turn around the backlog by 2000?

Ms. ZIELINSKI. And keep current.

Chairman WYDEN. And keep current.

Ms. ZIELINSKI. Right.

Chairman WYDEN. That was in addition to what you have today?

Ms. ZIELINSKI. Right.

Chairman WYDEN. And how would you anticipate utilizing BLM personnel and independent contractors in terms of this effort?

Ms. ZIELINSKI. Almost all of the work in those areas is contracted out. We utilize BLM personnel simply for administration type—preparing the contracts, administering those contracts, making sure that we get essentially what we paid for, but almost all of that is contracted. We would certainly continue doing that.

Chairman WYDEN. One of the reasons that I asked you this is that I am absolutely convinced it's going to take some additional resources to do this job. There's just no question about it, but I think there's a big hurdle for the agency to clear to get additional resources, and to a great extent, the agency is going to have to build up some trust in order to be able to do this. I mean, we're going to have to get a square budget proposal from the department that really outlines candidly what's needed. Second, we're going to have to get assurance from the State office that the budgeted monies go to budgeted purposes, and there has been great concern by the Inspector General that that has not been the case.

Third, it seems to me there's got to be strong evidence that the agency is running in a really lean and mean kind of operation. I think that it's going to be necessary to show those kinds of points that I've described in order to make the case that Congress during tough times would free up more resources. How do you intend to go about trying to buildup trust and trying to turn the agency around after these very critical audits?

Ms. ZIELINSKI. Well, I would say that I can certainly commit personally to taking a hard look and am taking a hard look at all aspects of the BLM in Washington and how we operate. I'm taking a look at what we're doing, why we're doing it, how we're doing it, and whose doing it. I think that's the first step in really assessing the appropriateness and answering all of those questions. I can commit that I will certainly prepare and—we have prepared in the past and continue to prepare a realistic estimate of what our needs are in this program in Oregon, and I will submit those through our Washington office.

Again, once that happens, I don't have total control on that, so I don't want to lead you astray and say that I can commit that those will go through the entire process intact. In fact, as you mentioned yourself, they have to be put in on the overall picture within the department, Office of Management Budget, the whole Federal budget as a whole, but I can assure you that we will continue to identify our real needs and pass those through our process.

Chairman WYDEN. Let me ask you about a couple of the specific savings examples because it seems to me again, in order to try to

make the case for additional resources, it's going to be important to show that there are some real savings out of existing dollars. I gather that you're talking about making some personnel decisions and undergoing some agency streamlining that could produce a substantial sum for in ground investments like stand enhancement and thinning and like. Can you give us a ball park figure on how much might be saved in that area and how you would tend to go about that?

Ms. ZIELINSKI. I probably can't give you a very good ball park figure at this point in time, but I could put it in a little bit of perspective, and one fact of that has come about very recently. As part of the President's initiative to reduce Federal employment overall in the next 5 years, we had 100 employees in the urban Washington organization take advantage of the buy-out or early out retirement. The salaries attached to those hundred people would be about \$5 million. I believe that's true.

Now, not all of the those employees, obviously, are in the forest management or funded through the forest development at camp, but again, I think that we would realize savings in that those folks—we will not be replacing those positions, of those that took the buy-out provision. So, I think that we will definitely see some substantial amount of savings out of that effort.

We are looking with the National Conformance review that the vice president has initiated, and Interior has emphasized reducing the number of supervisors in our organization. We currently have a ratio of about 1 to 6.6. We're looking in the long run over the next 5 years of going more toward 1 to about 15. So, you can see that we'll be reducing the number of supervisors in our organizations. In the administrative area, the same kind of initiative. We'll be looking in particularly, let's say, our personnel area in having a 1 to 100 personnel servicing ratio, and that's about half of what we have now. So, again, my goal in these initiatives is, assuming we don't take the substantial budget cuts that kind of just take those savings away from us as an agency, would be to redirect those dollars to project work. I'm a real believer that that should be our emphasis. That's what we're all about, is getting those dollars to the ground, and that will definitely be my focus as the director here.

Chairman WYDEN. That really sounds encouraging, and I want to work with the agency to try to get first that \$5 million, to try to turn that into investments on the ground like stand enhancement. My understanding was that we were basically for the short term in terms of existing savings probably trying to get as much of that \$5 million that comes about through agency, streamlining for stand enhancement. Second, that there might be another million dollars available for these kinds of investments because the agency would move away from what you called skewed accounting where in effect, the forestry accounts get overbilled for these agency-wide overhead expenses. Is that their statement as well?

Ms. ZIELINSKI. Yes. The million dollars that you referenced would be a result of our proposal to, as I mentioned in my statement, to consider removing the contracts, direct contracts for reforestation out of that overhead allocation. If we did that, it would make about a million dollars available again for on the ground project work. We

are also still going to look at the whole overhead allocation process, but again, as I mentioned, we don't have a separate account in the O&C for any of the administrative or overhead. I believe that there are certainly, and hopefully you would not disagree that there are certainly some legitimate overhead costs that have to be paid for somewhere, somehow in order for us to do a quality job in all of our programs, including forest development.

Chairman WYDEN. Well, you're absolutely right. I think what the Congress has been upset about and I think was at the core of the Inspector General's reports is that there didn't seem to be any truth in budgeting, that here you had a situation where the money that was supposed to go into reforestation was diverted into something else. Of course you have administrative costs, there's no question, but there has to be a system for doing this. When you told us that you felt that in effect, the forestry account was overbilled and that this was a skewed kind of accounting system, that to me is really beginning to acknowledge what the problem has been, and I've got to tell you, it's pretty refreshing compared to what I was getting for all these years when I would call up the Inspector General and he'd issue a critical report, and everybody at the agency would say everything's hunky dory and we don't have any problem, we don't have any backlog, and every penny is being spent wisely. Then we'd wait around for the next Inspector General report, and they would make it pretty clear that that wasn't the case.

Ms. ZIELINSKI. I certainly join with you. I take very seriously the Inspector General reports, but I'm hoping we can move on. I said we are certainly going to address the issues that are raised and make some improvements and I think move forward in a positive way. I think that's both of our goals.

Chairman WYDEN. Let me ask if I might about a point the Inspector General, Ms. Fleischman, made in her review that I would like to have your assessment on. She said, and I quote here, that "the Inspector General was unable to review Oregon State office overhead allocation because the State office did not identify all overhead costs that were charged to programs." Now, this has got to be something that's a bit troubling because it suggests at least to people who folks might be shifting money around accounts without keeping track. What's your assessment of this, and how do you plan to deal with this comment of the Inspector General?

Ms. ZIELINSKI. First of all, I really do want to say that no, we are not shifting money around, that we are not tracking at all. The situation that occurred here was that when the Inspector General came out to do their review, we had initiated our own process of looking into the reallocation of overhead. The analysis was completed for all of our district offices, and we shared all of that information, very detailed information, in a particular format with the Inspector General. The Inspector General's staff then requested the same information for the State office. We had not finished that analysis for the State office. We were in the middle of it, and so the data just flat out wasn't available in the same format and in the same detail that it was for the district offices.

We explained that to them. We shared all of the data in its rough form that we had, but internally we said it would take us, our

staff, a couple of months to complete that and do the kind of analysis that they wanted to do. The Inspector General came to the same conclusion, that if they were to undertake it, it would take several months. Both of us decided not to invest that kind of time and money into getting that State office data in the exact same format and shape that it was for the district offices. They utilized all the district office information. They utilized the information from the State office, but I have to say yes, they were at a disadvantage because we were not able to provide the same kind of information in the same format so that you could kind of compare both of them. It was simply due to a time constraint.

Chairman WYDEN. You would not anticipate this coming up again with the Inspector General?

Ms. ZIELINSKI. No, I don't think—hopefully it will not because we have finished our State office review and the allocation process, and that would be available to them now, all of that information.

Chairman WYDEN. Because I think that's a very important area, and I would urge you to concentrate with the Inspector General on that because when you read that, it suggests the kind of slight of hand that money is just sloshing around the system and if they tell you that they can't identify all of the overhead costs, that's something that's certainly troubling.

Ms. ZIELINSKI. And I also know that there is a commitment, both at our Washington office and at the field office level here to improve our accounting and financial systems so that they are clearer and easier I think for people to track.

Chairman WYDEN. Let me ask you about another part of this. It's a matter of policy. It seems to me one of the things that you all are saying is to some extent, this is a problem because things get measured year to year. You're at the kind of whim of the U.S. Congress and the appropriations process on any kind of given year, and I would be interested in knowing whether you all think you'd be better off and the forests would be better off and taxpayers would be better off if reforestation and stand enhancement had a dedicated and ongoing funding mechanism, say patterned after the forest service Knudsen Bandengerg program?

Ms. ZIELINSKI. Well, I'd certainly say you're absolutely right. It's difficult for both us internally and I know for our contractors to plan ahead for work loads when you are essentially on a yearly appropriation process. I know the KB fund has worked very well for the forest service. They seem to be very pleased with that arrangement. I think that it would indeed build some more certainty for both us and for our contractors. My only caution is I think that we would need to look at how such a fund would affect the receipts to the O&C counties which is something that we're certainly concerned about, and I think they would be, but I think that could definitely be worked out.

Chairman WYDEN. I'd like to pursue that with you as well. I understand the Inspector General also thinks that that would be a sensible idea. Let us follow up on that.

Ms. ZIELINSKI. OK.

Chairman WYDEN. Let me, if I might, ask you about some issues relating to reforestation contractors. We're going to be hearing testimony today from the Reforestation Contractors Association, Mr.

Desmond, and also from Mr. Rust, Lane County Commissioner, who is also a reforestation contractor. They've been pretty critical about the events of the last couple of years and the Inspector General's reports. I'm interested in knowing how you are going to respond to the reforestation contractors to try to better involve them in the work with the BLM.

The other reason I think that this is important is that those are the real pipeline to the jobs. We obviously have a big problem in getting the family wage jobs we need during this very tough time. It's a transition in natural resources, and I would like to hear your views on how you plan to better integrate the reforestation contractors in your work so we can get this additional employment.

Ms. ZIELINSKI. Certainly. First of all, I guess I am optimistic that we are going to have more certainty in our programs now that the President's forest plan is out on the table. We'll have a chance to study it and see what implementation is all about, especially as how it affects the reforestation and the growth enhancement opportunities.

We've been dealing, as you know very well, the last 3 years with a lot of uncertainty in the forest programs, so I think that's one positive step, is having the President's plan out on the table for all of us to work from. It will be helpful.

Chairman WYDEN. Let me ask it maybe this way, maybe this will be helpful.

Ms. ZIELINSKI. Yes.

Chairman WYDEN. How would the changes in your budget process and development of your stand management program bring them the additional certainty?

Ms. ZIELINSKI. OK, one of the ideas that we are pursuing that I haven't mentioned would be looking into setting up possibly a revolving type account for let's say the commercial thinning portion of our program where the monies would go into an account that would be available for growth enhancement projects. I think, again in the long run, it's certainly a very, very cost effective mechanism. That would give definitely some certainty to the contractors and to us as far as planning our work loads. Again, it would be similar to the KB, but another fund of that.

Chairman WYDEN. A revolving fund that could center really on the area that we all agree needs a lot of work, and that's the precommercial thinning.

Ms. ZIELINSKI. Right. Well, this one I would say we would have it available for all growth enhancement practices, including the fertilization and stand conversion so that we could keep up with the work load that's coming on line. So, again, that's an idea we've just sort of been kind of brainstorming that one here, but I think it has a lot of merits, and that is one that we would like to pursue further. Again, we need to make sure that we're not adversely affecting the O&C receipts. I think that's got a lot of potential and I think that one is one that would definitely give you—us and the contractors, the opportunity to look ahead and project how many acres would be in each of those categories and work load for them to plan their resources around.

Chairman WYDEN. How about the BLM stewardship program and what role that might have in terms of beefing up stand enhancement work and providing more certainty?

Ms. ZIELINSKI. I think that's another real positive. That program—the forest service has again been I think piloting that project, that stewardship program for a few years and have had some real good successes. That one again would allow us to, for example, as part of the timber contract, you might require certain other kinds of restoration projects as part of that timber contract, and the monies would come from the—actually, your return to the government would be reduced on the bid that the purchaser would make for that timber contract, but you would be accomplishing a lot of work that otherwise would have to come out of appropriated dollars which fluctuate so much from year to year.

Chairman WYDEN. So you'd like to expand that and you'd like to have this revolving fund arrangement for the thinning work?

Ms. ZIELINSKI. Yes, we'd like to pilot ourselves, NBLM, a stewardship contract and see how that works. There again, as in any approach, there's pluses and minuses to that. Receipts is another issue there, and it's not going to solve all of our problems in the reforest development program, but we think it has some pluses that we would like to pursue and try it on a pilot basis and then do a real analysis for us specifically as to how it works, in the long term and the short term and the returns to the government, to the counties, work we're able to get accomplished, how the contractors feel about it, the quality of the work that we're able to insure is happening through that kind of an approach.

Chairman WYDEN. Well, that about wraps up the questions I have for you, but let me tell you that I think these are encouraging steps, and I want you to know that this subcommittee and I are going to work closely with you. You have a big job because you have got to get confidence back with the public and the way BLM does business. I mean, after these most recent reports, a lot of people have just come to me and said look, Ron, at a time when folks are being laid off and they're losing family wage jobs, we cannot afford to be losing more board feet than is in the President's program for a full year. So, we have really got to work together to turn this around.

You are brand new at the agency. We always try to treat our witnesses fairly, but we especially try to be gracious to witnesses who have only been there for a few weeks. I want you to go knowing that I believe that the Congress expects really major changes at your agency and expects them quickly. I think clearly those major changes will be absolutely a prerequisite to getting additional funds. Congress is not going to heave more money at the Bureau of Land Management if they think money that's supposed to go for reforestation is going for public relations and gymnasiums and that kind of thing. I think there are going to be Members like myself who want to make the case that some additional funds are needed, but the key to do it is to show that your agency is really lean and using dollars well, that there's been a real shake-up in terms of the budget process, that there's real truth in budgeting, and I wish to work with you to achieve that, and feel that you've taken some

good steps already, and now we're going to work hard in the days and weeks ahead to build on this program.

Ms. ZIELINSKI. Thank you.

Chairman WYDEN. Do you want to add anything further?

Ms. ZIELINSKI. No, I would just second what you've said. I believe that it is, as a Federal agency, that taxpayers are not just our customers, they're our owners, and that they have a right to know exactly how we're spending their dollars. I also look forward to working with you, and hopefully—again, I appreciate your support in our financial needs and working through the Congress in helping us meet those needs. I also am fully aware that we need to show you and the other Members of Congress that we are operating a very efficient, quality organization and that the dollars are going for what they are appropriated for. So, I'm definitely committed to that and as I said, I'm really committed to making those dollars go to on the ground work.

Chairman WYDEN. We will look forward to working closely with you. I'll excuse you and your associates at this time.

Ms. ZIELINSKI. Thank you very much.

Chairman WYDEN. Thank you. Let us now call our next panel of witnesses, Mr. Rust, Mr. Desmond, and Mr. Bratt, if all three of you will come forward. Gentlemen, it is the practice of our subcommittee to swear all witnesses. Do any of you have any objection to being sworn?

Please raise your right hand. The testimony you're about to give is the truth, the whole truth and nothing but the truth, so help you God?

Mr. DESMOND. I do.

Mr. BRATT. I do.

Mr. RUST. I do.

Chairman WYDEN. Gentlemen, we thank you for your efforts and though you've worked with us on many occasions in the past, we'll make your prepared remarks a part of our hearing record in their entirety. Why don't, if you wouldn't mind, take 5 minutes or so, each of you, to summarize your major views. Why don't we begin with you, Mr. Rust? Welcome.

TESTIMONY OF THE HONORABLE JERRY RUST, CHAIRMAN, LANE COUNTY BOARD OF COMMISSIONERS

Mr. RUST. Thank you, and good morning, Mr. Chairman. I want to thank you, too, for your persistence in following this issue so diligently, and I can remember over at the World Forestry Center, I think it was June 22, 1992 when you did another field hearing and pursued some of these same questions which I think are just extremely important of the economic well-being of Oregon.

I've read the Inspector General's report, and I was extremely disappointed that the BLM may have allowed the diversion of funds from forestry projects to pay for "overhead costs of non-forestry programs." If this abuse of discretion is true, it robs our region in two ways, of immediate, much needed jobs in reforestation and timber stand improvement, and it robs our region of future timber supplies, jobs and revenues in the future.

I think what I'd like to spend my 5 minutes doing is just summarizing several concerns that I have a answering two questions.

With less dollars than needed to do adequate tree planting and other stand improvement activities, what are the most cost effective investments that can be made with these dollars, and what other activities can the BLM undertake that will mutually benefit both the BLM and local communities? First let me say, in another reincarnation, I was a tree planter, you referred to that earlier, and I think over the years, I've had the privilege of planting approximately half a million trees personally and tens of millions with my company. I say that not because it's any big deal. It was my job, but you do get to reflect a lot on what it takes to plant a good tree and what it takes to prepare a site and to understand a lot about these issues.

What I'd like to suggest here today is we'd like to reinvent tree planting as we know it. This might be something that I could work together with the new director. I really appreciated those earlier remarks, but we do need to look at this in the light of the new ecosystem management. I was sitting back there looking at the city council chamber, and if we were to plant this room on the standard by the computer eight by eight grid system, we might be able to get 50 or 60 trees in here. If conditions are right and it's really good soil and a good wet summer, maybe we could get a big return on that. On the other hand, maybe it will be a dry summer and maybe this is some of those sites in southern Oregon that the director was speaking about, and maybe only a couple of those trees would survive. I've personally been on trees that have been replanted five times, and it wasn't in southern Oregon either. So, failure is not hard to accomplish in tree planting.

What I'd like to suggest is that we pay a lot more attention to planting fewer trees but a lot higher quality. I would suggest we could plant six or eight trees in here and have a great stand, exactly what we're looking for. If we took the time to find the sweet spot, the deep soil, plant it carefully, maybe shade block it or maybe go out of your way to plant it in a place where an animal would not go by and browse on it year after year. Those are some of the things that should be done.

In addition, I think we should be building more biodiversity into these programs. By that I mean different species, some shade tolerant species, some dry site species. We should give more credit for things like hardwoods, alder, maple, ash, oak. They should not be systematically eradicated, and I know there is a diversity in BLM from district to district, but I think there is a reinvention of tree planting that needs to occur.

Let me also mention the precommercial thinning, that figure disturbs me quite a bit. With 60,000 acres, what that says is you've made the investment in tree planting. You've got the trees in the ground now, and now you can't afford to manipulate the stand to actually get the heart of the growth cycle out of those trees. There are several ways to attack it, but first I think we have to find money to bring that backlog down. That is the point where trees are growing exponentially if you can get in and open the stand a little bit.

In addition, I would be real surprised if some of those precommercial stands could not be reinventoried and found to actually have some commercial value, and that's important because if

that's true, that would mean that some of those units could pay their own way because you'd have merchantable material coming off the unit. I've seen some areas that are buying limbs today. Virtually anything that you can get on a truck has value, so maybe some of these 15-year old stands have materials that would actually be merchantable. I may be way out on a limb here, or on a pole, but I would really like to see you take a deep look at that issue because I think some of the backlog could fall into a category where it could be economical to treat right now.

Let me just mention one other thing and then I'll end and see if there are questions later. I wanted to say that I've had the great experience of working with the recreation division in the Eugene BLM, and I've included in this testimony that I prepared a copy of the Backpacker article, "Twelve Great Trails in the Wild West," and this is May. They're bragging on a trail that hasn't even really officially been opened yet in the eastern part of Lane County, but it's got a lot of people excited about it because it's an old railroad line that the BLM has acquired partially because of defaults on some old contracts. It brags about this line and the fact that it will be an opening from Cottage Grove and really reach right into the Cascades and up some great areas, lake areas of Lane County, or actually reservoir. We have timber dependent communities that really don't have a lot of opportunity to diversify their economy. I think this is a good fit, and I will predict that this story tells us a story about the diversification of part of our economy. It's not the answer totally, but it is a piece of it, and it helps as we look to diversifying the economy.

Those comments are in no way intended to detract from the main course here today which is timber, revenue, jobs, stand enhancement, improving the growth. Again, I would say, as Lane County is 50 percent in Federal ownership and as we get much of our budgeted revenue from these lands, and we are in a partnership with the Federal Government and the BLM, I would say that that's of critical importance that we stay on this issue and insure that not only is the cost accounting tight, and I understand from the statements that were made that that will be the case in the future, but that we also find the necessary money and will to make these investments that pay off down the line in tens of millions of jobs and dollars in revenues, and many jobs for the people of Oregon. With that, I thank the Congressman for this opportunity.

[Mr. Rust's statement may be found in the appendix.]

Chairman WYDEN. Well said, and we'll have some questions in a moment. The rate of return on these investments can be staggering. There's just no question about it, like 10 to 15 to 1 in terms of dollars, but I think, as you heard us talk about, we're going to have to see some real changes in this agency in order to make the case for the Congress and the public in tough times like you're facing with your Lane County budget that additional money is necessary. We'll have some questions in a moment. Mr. Desmond, welcome. It's good to have a chance to work with you, as always.

**TESTIMONY OF MARTIN DESMOND, EXECUTIVE DIRECTOR,
NORTHWEST REFORESTATION CONTRACTORS ASSOCIATION**

Mr. DESMOND. Thank you, Mr. Chairman. My name is Martin "Jack" Desmond. I'm representative for the Northwest Reforestation Contractors Association. The association consists of 60 member companies in five different States of the Pacific Northwest. I'd like to thank you, Congressman Wyden, for holding this hearing today, as well as your continued interest on intensive management opportunities on both BLM and Forest Service lands in the Pacific Northwest. Commissioner Rust mentioned that hearing you held about a year-and-a-half ago. I thought that was very important to help focus people on a lot of opportunities that need to be done, both on our public and well as our private forest lands. Our association has had the opportunity to review the IG report, and we'd like to offer these comments. First, on page 1 of the audit report, it lists the reforestation budget and the timber management budget for the BLM for the past 4 fiscal years as well as the total number of FTE positions for the BLM. Just real briefly, in terms of their total reforestation and timber management budget in fiscal year 1990, it was \$82 million, and the BLM had 983 FTE positions. In fiscal year 1993, it had a total reforestation and timber management budget of \$58 million, and it still had 983 positions.

Now, if a small business had lost, say, 40 percent of their gross income in a 4 year time span, that company would have had to lay off a significant number of its employees, yet the BLM still has the same number of employees. So, where has the cut come? Well, from our point of view, the cut has come in not doing the work that needs to get done out in the woods. The BLM has acknowledged in other documents that it submits to the U.S. Congress that about 90 percent of the actual manual reforestation intensive management work is done through the contracting process, yet this unfortunately seems to be the first part of the budget that in the past has been cut.

I'd like to talk a little bit about the forest development backlog. The BLM acknowledges, as you pointed out, about 43,000 acres of plantation maintenance work, 60,000 acres of precommercial thinning work, and 162,000 acres of fertilization work. A couple of years ago, I looked at the number of acres that the BLM had been thinning for about the last 10 or 15 years, compared that with the number of acres that they were planting. Roughly, they were planting about 30,000 acres a year—they obviously go up and down from year to year. Based on those calculations, I figure that the BLM probably had a backlog of precommercial thinning needs of 120,000 to 150,000 acres, and obviously that's just sort of figuring on the back of an envelope, but we suspect that there's more than 60,000 acres out there. So, there in fact, is an enormous amount of thinning work that needs to be done.

A year ago, our association testified at a house interior subcommittee in Washington, DC about the backlog on BLM lands. I want to thank Congressman Wyden for also testifying at that hearing. Both the BLM and the office of Inspector General agreed that there was a backlog, even though they disagreed about the seriousness of that backlog. I would like to note that since that hearing, that the Congress apparently only appropriated \$26 million for the

fiscal year '94 budget, which was \$3 million less than the previous year, and apparently this year the Clinton administration is proposing \$23 million. This is somewhat of a trite statement, but the Clinton administration needs to put its money where its mouth is, that we've got a lot of work that needs to get done, and our association, or I estimate that the BLM needs a minimum of \$35 million a year annually to do this work. We could also throw in the caveat that the BLM be limited to spending no more than \$10 million on administrative and other charges and that most of this money be actually done out in the woods.

I just would like to talk a little bit about what we feel is some inappropriate and wasteful spending on the part of the BLM. The IG report sites a number of examples. I'd just like to mention a couple of personal stories. One of our members was visiting a—well, actually, he had gone to the Salem BLM district to pick up some tubes, and he was directed to the back to one of the warehouses back there to pick up the tubes. Well, he sort of got lost, and he ended up walking apparently one of this wellness centers. He mentioned how so to speak lavish it was. Of course, I have no idea if the money for that particular gymnasium was built with reforestation dollars or not, but it just sort of points up that contractors in our association, they run very—and I do like your words. You continually mentioned lean and mean, and that's the way our contractors have to run. They've got one or two people working in the office, and 95 percent of their people are out there working in the woods. I think that's really how the BLM should operate, is most of their people working out in the woods.

There's been a lot of discussion about the loss of timber growth and income, and I won't say too much more about that except to note that investing in these public forest lands does have a very good return, and that what we're doing is we're essentially depriving our children and grandchildren of timber revenue in the future.

Just one little editorial comment, about the only place where we disagree with the IG's report is when they said that the BLM timber sale program was stopped by the courts due to the failure of the bureau and other agencies to produce plans to satisfy the requirements of several laws, including the National Forest Management Act, the Endangered Species Act, and the National Environmental Policy Act. I guess from our point of view, we feel that a number of Federal judges, including Mr. Dwyer, have acted quite unreasonably in shutting down the Federal timber sale program. I have a chart enclosed of what has happened to the BLM timber sale program for about the last 7 or 8 years, and it's gone from about 1.1 billion board feet down to 25 or 30 million board feet, which has a very serious impact on our members.

So, in conclusion, you mentioned about asking the State director about working with the contractors, we would certainly love to get together and have a working lunch with the State director and other of her key people to talk about how we can work together to get this work that needs to get done because there's an enormous amount of work that does need to get done which is going to provide for a better society in the future. Thank you, Congressman Wyden.

[Mr. Desmond's statement may be found in the appendix.]

Chairman WYDEN. Well, excellent testimony, Mr. Desmond. I'm going to have some questions there in a few moments. Ms. Zielinski, to her credit, is still here, so maybe you can invite her to lunch after the hearing and make your plans on that working lunch. I'll have some questions in a moment. Mr. Bratt, welcome and please proceed.

TESTIMONY OF JOSH BRATT, MEMBER, OREGON ENVIRONMENTAL COUNCIL

Mr. BRATT. Thank you. My name is Josh Bratt, and I'd like to clarify that I am here representing myself as an individual as opposed to any organization. I did serve for 10 years on the board of directors of the Oregon Environmental Council. That organization is not intimately involved in Federal timber practices per se. We have a little bit of background there.

I was asked to speak primarily on the issues relative to the economic and environmental benefits that can be accrued on reforestation and stand enhancement activities. I guess I'm going to kind of just gloss over that because I think the benefits are pretty obvious. I mean, if you do nothing but look at the litigation that's taking place with surrounding salmon and spotted owls and everything else that's taking place in the forest industry these days, it's pretty apparent what happens when we neglect those kinds of things.

I would like to focus on some concerns that mostly have been brought to my attention by individuals and organizations in the State over the last 10 years really. It was almost 10 years ago that my wife was involved in the Freedom of Information Act bill with the Bureau of Land Management surrounding their unwillingness to disclose certain reforestation success rates or failure rates if you will in southern Oregon. I'll just sort of rattle through those concerns and hit them as briefly as I can.

The first concern is that in the past, the BLM officials have been appointed on the basis—the key official has been appointed on the basis of politics, and that's versus appointments on the basis of demonstrated objective commitment to good science and ability to demonstrate a sustainable resource management expertise that they have. The result of this is that the BLM for many years has adopted politically expedient forest management practices which are rationalized by what are in my opinion short term and speculative economic analyses. The scientific and technical support has been sought only after the basic policy decisions have been made.

I guess in my view that unless some comprehensive—there needs to be some comprehensive ecosystem management implemented which is going to address the sustainability of multiple use forests to obtain stable local economies and to regain the trust of the public, as you pointed out, and I have some specific recommendations. I'm not going to go through those. Those are in my written testimony.

The second concern is that the intensity of the BLM's management in the past has been too great, and that's the intensity of the harvest I guess as opposed to the intensity of the reforestation. Really, it remains so in the proposed resource management plan

that is still in draft form. The final version hasn't come out that would have been adapted to option 9 or whatever it's called.

Over the last decade, the BLM was only able to accomplish about 46 percent of its intensive management practices called for in their existing plan, and yet they will be attempting to accomplish approximately 350 percent more in the next decade. I guess given the BLM's poor past record of accomplishments, the proposed level appears a little bit unrealistic, particularly in an environment of less money and fewer people. I have some recommendations about some things there too, but I'll leave that to the written testimony.

My third concern is that the timber production still appears to be BLM's highest priority, and this emphasis on timber leads to the neglect of other forest development programs and activities. Specifically, you've discussed the O&C Act, which was written in 1927, and this act was meant to provide resource protection while producing timber and community stability. The BLM has used the provisions of the O&C Act, claiming that timber extraction overrides all other resource protection considerations.

If you would note the following example, they have decided to defer what's "deferred lands" in the old growth management areas. What this means is that although these lands are not available for timber harvest, the volume they contain can be utilized by increasing the overall allowable sale quantity, acronym ASQ. Furthermore, the proposed land use allocations for the next decade are structured to meet timber ASQ's even though the underlying assumptions include unharvestable lands. So, some of their basic accounting principles still, and I don't know if that's changing or not, but that's still, as far as I know, it's still the case. I have some recommendations in that area as well that are written down here.

My fourth concern is that the Bureau of Land Management has failed to accomplish many of the forest enhancement activities required by law or called for in their existing management plans. This has had and will have a materially negative impact on local economies and environmental conditions. Despite receiving funds and making promises to the public, the Bureau of Land Management has a backlog of reforestation, thinning, fertilization, burning, vegetation management restoration, and other projects. This shortfall in accomplishments will have an impact on future allowable sale quantities. In other words, less board feet of timber are going to be grown, as you pointed that out, and the sustainability of the forest itself.

It should also be remembered that many of the benefits such as increased volumes, better tree survival, et cetera claimed are speculative, and that's demonstrated in the success rate that they've had. They just have not had the success rates that they had professed that they would have or hope to have.

I guess while it appears that my testimony strays a little bit from reforestation and stand enhancement issues, I'm not usually a guy who complains much, but I guess I view this—I like to look to the root of problems as opposed to what we can do on the surface to repair something like this. I guess I view this circumstance as more of an institutional problem as opposed to something that can be solved by changing the accounting methods of the agency itself.

I guess in order to solve—I'll just read from my testimony—in order to solve these inadequacies, some portion of the BLM institution must be altered. There are some obvious short term steps that can be taken, perhaps some of the ones that I've suggested. Most of these are going to be expensive, and you've alluded to the fact that you'd like to hear some input from them about what can be implemented, and those are obviously immediate needs that can't be looked past.

I guess the long term solution lies in the institution itself, and it's going to require a real cultural shift on the part of some of the people in the organization in terms of the timeframe and the context in which the natural resources that they are managing are viewed. I guess my personal view is that they are—being subject to the political pressures that they have been in the past, and the economics of the price of wood and other things are really what has caused us to manage the forest in the fashion that we have. I think until we really evaluate or re-evaluate the values that we place on the alternate resources that are a part of the forest and look at that in the long term, I don't think that any change in accounting method or other things are really going to create a sustainable solution.

[Mr. Bratt's statement may be found in the appendix.]

Chairman WYDEN. Thank you. You make some interesting points. We, too, are interested in changes in the institution and the culture at the Bureau of Land Management. I can tell you that I'm concerned that if we don't show taxpayers, for example, the money that's earmarked for reforestation doesn't get to reforestation rather than to gyms and public relations, we aren't going to buy ourselves any time for the institution to change itself.

Mr. BRATT. I couldn't agree more.

Chairman WYDEN. You make some good points, and we'll have some questions in a moment. Mr. Rust, start with me, if you would—you're from a county the feds, as you characterize it, own 50 percent of Lane County. So, what we're talking about in terms of these programs is an enormous cash source for the county. Reforestation and stand enhancement programs, I guess for your county, is kind of like putting money in a CD or some kind of interest bearing instrument. How much does Lane County receive in a year from these kinds of programs?

Mr. RUST. Lane County has three national forests, the Umpqua, the Siuslaw, and a good portion of the Willamette. We've also got 350,000 acres in BLM lands that are managed by the BLM. We're a county that is very dependent on timber revenues as well as the jobs. There are several thousand jobs, maybe 8,000 jobs in Lane County that are timber dependent. Forty percent of our general fund comes from the O&C monies, and I can tell you this year to the penny we know what we're getting because of your good work and with other members of our delegation, we had to guarantee, both at the O&C level and with respect to the forest service. The O&C this year is \$12 million, and that would keep our jail open. We're a county with 300,000 people, a rapidly urbanizing county. I would keep a youth services department funded, and it would also fund the prosecution of all of the crimes in Lane County by

the district attorney's office. So, that's an extremely significant part of our budget.

Now, we have also a county the size of Connecticut. The county alone maintains 500 bridges and 1,500 miles of road, just county roads, and I'll tell you, I've got a chart here on guaranteed payments for roads and schools to counties affected by spotted owl protection, and our share was \$24 million for this year. That's in the forest service account.

Chairman WYDEN. Now, the Inspector General said that backlogs in reforestation and stand enhancement could cost the country something like \$1.7 billion board feet in future harvest. Any idea how that might affect your county?

Mr. RUST. Well, of course, that depends on how the timber prices are when we harvest the logs, and it also depends on the harvest schedule. Did I hear the figure \$200 million as an estimate at today's prices? I think—do we share half of the gross? So, Lane County gets 15 percent of the O&C, so we share the \$200 million with the Federal Government, the gross, and that would be \$15 million that we would be losing if this backlog is not caught up. I would suggest that the figure could possibly be significantly higher than that because timber prices appear to be continuing to rise, and I think there are more intensive things that we could do if timber is the issue. I have been listening to my fellow person here, Josh Bratt, and I want it both ways, Josh. I want to have the values that you talk about, the non-timber, but I also want to see us have this productive forest land turning out jobs and fiber, and therefore revenues as well. I think we can have it both ways a good plan.

Chairman WYDEN. We talked with Ms. Zielinski about some of the problems on precommercial thinning and the lack of resources there. You're a former tree planter, a former reforestation contractor. What's your judgment about how the failure to invest is going to affect the ultimate harvest in these lands?

Mr. RUST. Once again, if you have trees that have been planted and you've made all that investment and then they're sitting there very tight, they simply sit there for years at a time, and there's not much growth volume that's being added. It doesn't take a lot to manipulate that stand through the thinning mechanism. I'll go back to reinventing tree planting. If we don't plant every 8 feet, and we're successful, then we've got about 600 trees per acre and we only want 200. Then we have to go in and thin 400. So, for my money, I think we should do a better job of what we do, and that's why I again say I think there's a productive exercise that we could have by getting the contractors together with people who have the experience. This new ecosystem management I think lends itself well to the kind of thing I'm talking about.

But that doesn't answer your backlog question. Where we do have stands that have 500 trees or 400 trees an acre on them right now, we desperately need to get in there and give those stands a boost. It would be like having a prize herd of dairy cows and deciding that you're not going to milk them, you're just going to have them in the pasture for the next 5 or 10 years and watch them. We can't have that kind of undermanagement, underutilization of the resource. There are people begging for these kinds of jobs—not

begging, but desiring to work, and I just think it's inexcusable that we would have Federal lands at this point that we cannot find adequate resources to invest in them. The payoff is great.

Chairman WYDEN. What is your sense about this kind of whimsical way that the government goes about funding the reforestation and programs we're talking about? I talked with Ms. Zielinski about getting out of this year to year kind of process and going to a system that was more certain and sure, something along the lines of a reforestation trust fund where the agency could go into a multi-year kind of system. Is that something that you—

Mr. RUST. Yes, I'm very interested in that, and I think this relates to why counties get to split the gross 50/50. There was something in the ancient past where 25 percent of the revenues that we once had, we pledged back to the Federal Government, and the counties believe that that money was to be used to reinvest in the production of this resource land. Let's set that history aside and say it doesn't matter how we capitalize it. We need to capitalize a fund and then use it as a revolving mechanism to bring some certainty to these investments and to these management policies.

Chairman WYDEN. Now, we're aware that you've been interested in converting non-timber lands on the margins of forest into timberlands through forestry plantations, and I gather that some of these lands even once were forests. What's your sense about the opportunities here, possibly even of hardwoods?

Mr. RUST. I think there are lots of opportunities. Every unit is different, but in general, I think we have not realized some of the opportunities in the hardwood area. It is rather fast growing, so you could see quite a bit of turnaround there. The timber prices aren't as high, but on the other side of the equation, I understand that for every board foot of hardwood, you can see about four to five times as many jobs. The reason that is so is that because you would expect to make a greater value added product out of our hardwood like maple. Alder has become a rage in Europe and Japan, and these are semi-finished products. So, that's why you get more jobs per thousand board feet. So, I think you can make a real case just on the economic level for not eliminating these brush fields and/or hardwood stands and converting them strictly to stands of douglas fir. I think you should have a mix and I think you should look carefully at what your objective is and what the land could most likely do for you. I think in general, the conversion and the management of these so-called marginal lands has quite a bit of opportunity that's unrealized.

Chairman WYDEN. What about this project you're pursuing with the Bureau of Land Management now, the rail line? Have you all been working well together?

Mr. RUST. Yes. The reason I wanted to mention that was because there was some discussion here about the lack of responsiveness to non-timber activities, and I think this is a good example where the Bureau of Land Management of course has a multiple objective mandate. Here we have a project that has the chance to become a model, and an exciting one. Our commissioners held a hearing in Cottage Grove. We heard from a broad range of people. Some, I'd be quite honest in saying, feel a little threatened by this because it will bring hikers and horsebackers through a river valley that at

one time had a train and only timber going on, but I would say for the record that the majority of people by far are in favor of this project. The Chamber of Commerce of Cottage Grove, 200 businesses, came out in favor of this project. I just want to say, in terms of people like Joe Williams on the district staff down there in Eugene, it's been a pleasure to work with them. They're cooperating with our parks division. We are signing a memorandum of understanding which will allow us to mitigate whatever problems there are along this line, and I would just urge the Bureau to make this one of their most important projects in the non-timber area and see if we can get this into a grand opening status for this time next year.

Chairman WYDEN. Good.

Mr. RUST. Thank you.

Chairman WYDEN. Let me move on to you, if I could, Mr. Desmond, because it seems to me that what you profile is right at the heart of the matter, and that is that you have these big backlogs, and your people lose jobs, a significant number of jobs. I thought maybe what we could start on is get an assessment for you, say there's 4,600 acres in site preparation work left undone. What does that mean in terms of jobs, and what does it mean in terms of jobs of 60,000 acres of tree thinning for which the Bureau of Land Management doesn't have the resources. What does that mean in terms of lost jobs. Let's take just those two to start with.

Mr. DESMOND. OK. These are just sort of ballpark figures, but to perform 60,000 acres of precommercial thinning, that would roughly take about one person per acre per day to accomplish that work. Now, on these Federal contracts, they have a minimum Federal wage of about \$11.50 an hour. So, assuming the person is out there working 8 hours to accomplish that 1 acre, they themselves would be earning about \$85, \$90 a day—actually I think even more than that. I have calculated out total. To do that 60,000 acres would require approximately 60,000 work days, or 480,000 work hours, and then times it by \$11.50 an hour which is the Federal minimum wage, that would generate about \$5.5 million in wages. So, that's a pretty significant amount of money that would be going actually to a lot of people who live in the rural areas in western Oregon.

Chairman WYDEN. \$5.5 Million in wages. Any idea how many people?

Mr. DESMOND. Well, part of that depends on how you calculate out a full time equivalent for seasonal work. We sort of fool around with a bunch of different figures. I generally figure oh, say about 180 work days per year to be one full time equivalent. I don't have my calculator right here, but if you were to divide say 60,000 by 180, you'd get the total number of full time equivalents. What is that, about 3,000 or 3,500 jobs. Of course, that would be spread out over a number of years though.

Let me just sort of tell this one brief little story about what is happening to the members of our association as well other reforestation contractors, and I'll leave the name of this particular contractor out, but I think it's sort of real symptomatic of what is happening to them with the tremendous fall-down, both on the BLM and Forest Service timber sale harvest programs. This particular contractor is located in Douglas County.

I couple of years ago, he was generating about \$1 million to \$1.5 million per year employing about 35 to 40 people on a regular basis. This contractor is now down to employing about 10 people on a fairly intermittent basis. Frankly, I'm surprised he's still in business. I suspect probably within the next year or so he's going to fold, and he's not unique. There are a number of other contractors that are in that same situation.

Chairman WYDEN. Let me see if I got the math right. This is a good one to wrap up with in terms of wrapping up our hearing. Actually, we've got some questions for Mr. Bratt, too, but Ms. Zielinski talked about saving a million dollars by changing this skewed accounting system there where the forestry accounts take such a large portion of it. Possibly \$5 million in terms of some of the agency kind of streamlining that is going on associated with reinventing our government effort. I asked you about what it would mean in terms of jobs to go after the 4,600 acres in site preparation that's undone and 60,000 acres of tree thinning, and you said that it would probably bring about \$5.5 million in payroll and between 3,000 and 3,500 jobs, and it would be accomplished almost with the money that was saved as a result of what Ms. Zielinski is talking about. Is that a fair statement?

Mr. DESMOND. Well, no, not quite right. Actually, I need to sit down with a calculator and figure out how many total FTE's there is, but that figure of roughly 60,000 work days to perform that 60,000 acres, I think that's actually reasonably accurate. Generally speaking, if the wages are going to amount to say \$5.5 million—the contractor needs to pay workmen's comp and Social Security and all these other taxes and overhead—and so the cost is roughly say twice what the wages is. So, it would be about \$10 million—well actually, what I figured is it would be approximately \$30 million to accomplish that 60,000 acres. I noticed when the BLM was testifying, they mentioned a figure of \$63 million or so, not only to take care of the backlog but also to deal with the future precommercial thinning needs, so I think we're actually sort of about in the same ballpark because I haven't calculated out what the future thinning is per year. This was just simply looking at the backlog, but \$60 million is probably a reasonably accurate figure.

Chairman WYDEN. But the \$6 million would get us started?

Mr. DESMOND. Yeah, it would get you started. Well, the precommercial thinning costs roughly run anywhere from \$100 to \$150 an acre, and so what would that be? I can't figure out in my head right now.

Chairman WYDEN. Lets' do this. You get that working lunch with Ms. Zielinski, and you guys take out your sharp pencils, but it seems to be that \$6 million allows you to make a good dent in some of this work that needs to be done over the short term and also shows the Congress and the people of this State that you're using existing dollars more efficiently. I was very interested—are you proposing kind of an administrative cap on their budget where in effect, the thing that you relate that's really eye popping is that matter at the beginning where you said the revenue went down but the personnel stayed the same. I mean, that's the kind of thing that really makes people's blood boil. That's just so obvious on its face to people, that they're going to be infuriated about it. Is the

kind of thing you're proposing designed to deal with it, which is that you have some sort of administrative caps so that you don't have a situation where the revenue goes down and people just stay the same and keep shoveling the same administrative dollars out?

Mr. DESMOND. I think that is something that the U.S. Congress should really probably should take a close look at. A couple of years ago I was looking at the BLM reforestation budget. I think it was for fiscal year '92 or whatever, and it was approximately \$30 or \$32 million or so, of which 60 percent of that was going to be going to the BLM overhead and their coastal Oregon productivity enhancement program and a bunch of other different programs. Then the other \$14 million or so was going to be the actual reforestation portion of it. In that particular year—not to be harsh on the BLM—but they didn't have any money to do precommercial thinning, so they actually spend more money on their holiday pay than they did on precommercial thinning work in western Oregon. Once again, I'm representing small business reforestation contractors. When they're faced with a shortage of funds, they have to put their funds to the best use, and they need to make tough choices, and I think the BLM, as you've been pointing out, Congressman Wyden, they need to make some tough choices right now.

Chairman WYDEN. I'm going to follow up on those figures that you've given us because those are really startling, and that's the kind of thing that's really going to leave the public very reluctant to support the significant new investments that you, Mr. Rust and Mr. Bratt and others are calling for, and I think makes sense.

The only other question for you, Mr. Desmond is what do you think about the idea of moving away from this annual kind of take your chances sort of process with the appropriations system and trying to set up something akin to the Knudsen Bandenberg fund at the BLM to get a permanent, more certain source of dollars?

Mr. DESMOND. Well, our board of directors has endorsed your bill. I forget which number it is, but we have endorsed it. I'll just make this one brief comment. I think it sort of falls along the lines of small is beautiful. What this allows is a local district forester, as he's laying out a timber sale, to make a determination that OK, we need to do a certain amount of watershed rehabilitation here and a certain amount of stand enhancement there and so forth and so on, so planning can be done right there on that very local level where, in fact, it actually does need to be done. So, we're quite supportive of your bill.

Chairman WYDEN. Mr. Bratt, I think the only question I had for you is if you could pick out one initiative for the short term that you think would be helpful based on the work that you have done now for a decade. I noted, and I think you're correct in terms of the need for these long term things. What particular change short term would make sense to you as being consistent with what you'd like to see BLM do in the future?

Mr. BRATT. If I could wave a magic wand—I guess I'd like to clarify first that you asked me a question in your statement, and you've addressed it to my organization, but it's me—do I support management of lands that aren't included in protective habitat zones for their maximum timber production under good forestry practices, and the answer is absolutely yes. That I don't think came

across in the nasty things that I was saying about the Bureau of Land Management in my testimony.

I guess it would be—and I'm going to cheat a little bit and do two parts. I've alluded to one part in my testimony, and I'll allude to the other part first here, and that is to get all of the backlog addressed as soon as humanly possible in terms of reforesting the land and addressing the dense stands that need to be thinned and just taking care of all of the backlog items. I see that as absolutely number one. There's political, economic, environmental, and there's a whole integrated list of reasons to accomplish that.

I think that along with that, you have to think about what brought us to that place, and I think that—I'm in the investment business, and if I overpromised and underdelivered to my clients in the way that we have been overpromised and underdelivered to in the management of our public forest with the Bureau of Land Management as a steward, I'd get sued. I'd lose my ticket. I'd be out the door very rapidly. I think that we need to have a real realistic assessment of what the true, sustainable carrying capacity of our lands are and not make our projections based on what we would like to see in the future or what we think we might be able to do with some unproven technology but that what is demonstrated as possible from past experience. So, those two things going hand in hand, and that's the cultural change that I alluded to earlier, and it's nothing radical. It's just good, conservative, prudent business management is what it is. Sorry for expanding on that.

Chairman WYDEN. No, no. Let me just tell you three, as I think a couple of you know, that our subcommittee has a lot of years in this inquiry, and I think it is even more important today than when we began. When we began, we weren't seeing the level of gut wrenching difficult times in timber dependent communities that we're seeing now. Certainly this has been a long time coming, but right now, at a time when clearly the public has got to see that the Congress, elected officials like Mr. Rust, those of you that work in these programs, are committed to making every dollar count. We have got to get these changes in place because I think these changes can make a difference now. It can also contribute to what you have said, Mr. Bratt, a change in the culture, a change in the way the institution operates. My sense is that the public is not going to support anything long term unless they see that the Congress and working with people like yourself and Ms. Zielinski who comes on new, are able to wring out of these budgets every single dollar for the work that it was intended, which is helping our forests and insuring forest health and having jobs and making sure that 40 years down the road when these harvests are available, that we have done everything we can to make sure they're good ones.

So, we are going to ride this very, very hard in the months ahead. It's not exactly an atomic secret that we have been unhappy about the way they've done business at this agency for a long time. These Inspector General audits, in my view, have laid out a very clear road map of what needs to be done, and I think what Ms. Zielinski has indicated this morning is that she understands as well. There need to be some very significant changes at this agen-

cy, and there need to be some significant changes in a hurry. So, we will work closely with you. Please give us your ideas and suggestions. Mr. Jennings, our staff director, couldn't be here today, but he is available, I am available. You get your working lunch there, Mr. Desmond. Ms. Zielinski I think came by car today and not by any planes or anything like that, and we're going to work closely with the agency to turn these things around. Unless you have anything further to add, we'll excuse you at this time. The subcommittee is adjourned.

[Whereupon, the subcommittee was adjourned, subject to the call of the chair.]

APPENDIX

OPENING STATEMENT REP. RON WYDEN

BEFORE THE SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES AND TECHNOLOGY

BUREAU OF LAND MANAGEMENT REFORESTATION AND STAND ENHANCEMENT PROGRAMS; PLANS AND PROGRAMS FOR ATTACKING BACKLOGS AND BOOKKEEPING PROBLEMS

May 9, 1994

Today, the Subcommittee on Regulation, Business Opportunities and Technology continues its inquiry into the management of reforestation programs on public timberlands in the Pacific Northwest.

Few public investments are as important, or create the level of long-term economic and environmental benefits, as the tree-planting and timber stand improvement programs managed by the U.S. Forest Service and the Bureau of Land Management.

According to former Interior Inspector General James Richardson, the Bureau of Land Management is an agency which is "adversely impacted by inherent organizational inefficiencies," and is a "classic example of an organization that has often failed to accomplish its mission, effectively." Today, we will look specifically at the Bureau of Land Management's reforestation program, where problems have abounded for years.

Missing the "biological window" for planting trees, fertilizing new plantations and conducting pre-commercial thinning can mean losses of hundreds of millions of board feet in ultimate harvest from these lands. These continuing failures involve thousands of acres of the region's most productive timberlands being managed by the Bureau of Land Management.

We are especially troubled by two recent IG reports. The first issued in March estimates that \$5.4 million in Oregon forest maintenance funds were diverted to other uses. The second, issued just two weeks ago, estimated that the Oregon BLM office was losing between \$2.5 million and \$3.5 million in a non-authorized airplane lease-purchase deal.

If there is an Achilles heel for investigators tracking what the BLM does, and how it spends its money, it seems to be agency bookkeeping.

As current Interior IG Joyce Fleischman wrote to this subcommittee April 19: "Because of improper accounting practices noted in our reports, the Bureau cannot accurately account for individual program costs of any program, including FTE (full-time employee) costs associated with its forestry program."

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The inspector general's report substantiates that these failures pose a clear and present danger to the future of many timber jobs in Oregon.

This agency has to pull its money out of bloated management systems, employee gymnasiums and luxury aircraft, and put it where it's needed most...and that's the critically important timberlands of western Oregon.

The audits cited problems which had developed well before the appointment this winter of Ms. Elaine Zielinski, the state's new BLM director. We are pleased to have Ms. Zielinski with us, today. I am encouraged by her start. My preliminary discussions with her indicate that she wants to deal seriously and constructively with these long-standing problems. Additionally, we're pleased that she wasted no time getting rid of that airplane.

Although I don't want to sugar-coat the backlog problems, and we'll get into them in some detail, I do hope that we can forge a new partnership today toward improving forestry in Oregon's BLM timber country.

Make no mistake. These lands must remain a productive part of the region's timber base. Mr. Jerry Rust, chairman of the Lane County Board of Commissioners and the representative of a major O&C Railroad lands county, will explain the importance of timber revenues from these BLM managed forests. As Rust will testify, the quality of reforestation on these lands goes right to the budget bottomline for these counties. Revenues from these timber sales fund schools, roads and other vital public services.

The forest environment, as well as the timber, is important to Oregonians. We will hear testimony from Mr. Josh Bratt, representing the Oregon Environmental Council, on the importance of reforestation work for healthy forest habitats.

And finally, these programs represent more than timber in the future...they represent jobs, now. Mr. Jack Desmond, executive director of the Northwest Reforestation Contractors Association, will describe the stakes for small businesses involved in site preparation, tree planting and tree thinning.

Before we begin with today's witnesses, I want to briefly review the numbers from the most recent inspector general's audit on BLM timber management programs. The IG details backlogs in the following areas: site preparation, 4,600 acres; tree planting, 3,800 acres; plantation maintenance, 43,800 acres; tree thinning, 60,000 acres; fertilization, 162,000 acres; and timber stand conversion, 6,600 acres.

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Putting this into perspective, the IG estimates that lost timber harvest volumes due to these backlogs may amount to 1.7 billion board feet.

That is a significantly higher number than anticipated total harvest volumes for the entire Pacific Northwest under the Administration's federal forest management plan.

I have to point out that the state BLM office has not been well served by the agency's national office. In 1993, the Oregon BLM notified national headquarters that the reforestation and stand enhancement program would need \$63 million to fund all reforestation activities. The national office, however, requested only \$33 million. According to the IG, this under-funding "resulted in increased backlogs."

Obviously, any budget request like this one has to be measured against other agency and national priorities. However, it is unacceptable that this agency...which for years has ignored numerous IG audits citing the need to reform its expensive, triple-tiered national management system...should be draining the life-blood from Oregon forestry programs to pay for an out-dated, out-moded and out-sized bureaucracy.

Tree-planting programs in Oregon must not be sacrificed to pay for a bloated management system centered in Washington, D.C.

Ms. Zielinski will outline, today, accounting changes which will free-up \$1 million for additional, direct investment in forestry programs, and agency streamlining actions which will save another \$5 million in annual spending...monies which she would re-invest in timber management.

This is a good start, and a welcome change in policy and philosophy.

In addition, Ms. Zielinski will propose that we invest \$51 million over the next several years in reforestation management in order to increase timber yields by 1.7 billion board feet.

\$51 million obviously is a ton of money. But as a general principle I believe Congress should support federal forestry investments where there is an identifiable and significant return for the taxpayer...and this surely is one such case.

Statement of Martin Jack Desmond
Northwest Reforestation Contractors Association

Testimony before

Representative Ron Wyden, Chairman
Subcommittee of Regulation, Business Opportunities, and Technology
Committee on Small Business

Hearing on BLM Reforestation Program Management

May 9, 1994
Portland City Hall
1220 SW Fifth Avenue
Portland, Oregon

Representative Wyden, other distinguished ladies and gentlemen, our association appreciates the opportunity to provide input about the BLM reforestation program in western Oregon. Our association consist of 60 member contractors in five states in the Pacific Northwest. Our association has a very keen interest in the BLM reforestation program as the amount of BLM reforestation work offered has a very direct financial impact to our members.

I would like to first take the opportunity to express our appreciation for the continued commitment by Representative Wyden and his dedicated staff to push for more intensive management work on both BLM and USFS forestlands in the Pacific Northwest. We note that Representative Wyden held a hearing eighteen months ago at the World Forestry Center on intensive management opportunities on our public lands and that his staff has been continuing to work on these issues. For example, the OIG audit report would likely have never been performed without the direct request by you. We appreciate your interest in making sure that our forestlands are being properly managed.

Office of Inspector General audit report

Our association has reviewed the IG's audit report of BLM reforestation operations in western Oregon. In your letter to our association, you requested that we address of number of questions related to the IG report in regards to possible mis-use or mis-direction of reforestation funds.

Funding and personnel levels

The introductory section of the IG report contains very revealing information about funding and personnel that was apparently not discussed further in the report. The chart on page 1 shows the following information:

Chart 1: BLM reforestation and timber management funding (in millions)

	Reforestation budget	Timber mgmt budget	Total	FTE positions
FY 1990	\$49.1	\$33.6	\$82.7	983
FY 1991	\$39.2	\$27.4	\$66.6	1,097
FY 1992	\$35.4	\$31.9	\$67.3	984
FY 1993	\$29.1	\$29.2	\$58.3	983

Although the chart shows that the reforestation budget has plunged from \$49.1 million in FY 90 to \$29.1 million in FY 93, the BLM full-time equivalent positions have not declined whatsoever. If a small business had lost 40% of its gross income in a four year time-span, the company would have had to lay off a number of its employees. Yet, the BLM has apparently decided to cut other portions of its reforestation and forest development budget.

The BLM has acknowledged in other budget documents that 90% of the actual manual reforestation/forestation work is accomplished by contractors. Not surprisingly, the BLM has cut actual contracting budget as its reforestation budget has declined.

Forest development backlog

The BLM does not directly respond to the allegations by the OIG that there is a significant reforestation and forest development backlog. The BLM acknowledges that there are 43,742 acres of needed plantation maintenance work; 60,119 acres of needed pre-commercial thinning work; and 162,007 acres of needed fertilization work (I might note that we continue to believe that the BLM has pre-commercial thinning needs of two to three times of that 60,119 acres).

The backlog is continuing to remain due to several factors: inadequate appropriations from the US Congress and Administration; and inefficient and wasteful spending of taxpayer funds. The OIG publicized the backlog in 1990 with an audit report, but there has not been a significant reduction in the backlog despite the repeated efforts by our association and other groups to address the problem.

Inadequate appropriations

Our association testified before a House Interior subcommittee in February 1993 about inadequate funding for the BLM in Washington, DC. We would like to thank Representative Wyden for also testifying at the hearing. The BLM and OIG both testified at the hearing. Although the two federal entities sharply disagreed about certain past practices, they both agreed that there were certain types of backlogs of forestry work.

Nevertheless, the US Congress appropriated only \$26 million for the FY 94 reforestation and forest development budget for the BLM. Despite all of the news media attention, the US Congress actually allocated \$3 million less for the BLM budget than the previous year. Needless to say, the BLM will likely be cutting its actual contracting work by \$3 million rather than reduce any of its existing BLM staff. So, one can likely project that there will be fewer acres treated this year and that the backlog will continue to grow.

I apologize for a rather trite statement, but the Clinton Administration and the US Congress need to put their money where their mouth is. I suggest that the BLM needs approximately \$35 million for its FY 95 reforestation/forest development budget with a committee language limiting the agency to spending no more than \$10 million on its administrative/other charges costs.

Inappropriate and wasteful spending

Several months ago, one of the contractors in our association was telling me that he had gone to the Salem BLM district office to pick up some tubes. The BLM directed him to one of the buildings in the back. He got somewhat lost trying to find the tubes and walked into a very lavish "wellness center." Although I could not tell from reading the OIG report whether this particular fitness gymnasium was paid by the forestry dollars, I do note that the OIG determined that the Coos Bay BLM had spent \$45,000 dollars of forestry funds on its "wellness" center.

The OIG report stated, "Backlogs continue to exist because forestry program funds totalling at least \$5.4 million were used for overhead costs of nonforestry programs and . . ." The report cited a number of other inappropriate uses of forestry dollars such as paying for all of the costs of the District Manager offices and Divisions of Administration. Not surprisingly, the BLM has objected to the OIG allegations about wasteful and inappropriate spending.

Frankly, I believe that the OIG has under-estimated the amount of waste. For example, approximately \$3 million is annually withdrawn from the reforestation/forest development budget and assigned to the COPE program (supposedly a joint research effort to increase the productivity of Oregon's coastal forests). Recently, our association received a flyer from the COPE program about a conference that it was sponsoring at the Salishan resort on the Oregon coast. As you know, the Salishan resort is a 5-star resort. During this period of wrenching economic impacts to rural communities and forest workers, the federal agencies will be "winning and dining" with our taxpayer funds at a lavish resort. I would like a performance audit of the COPE program prepared by a non-governmental, private accountant. The OIG report is quite silent about the COPE program.

As we discussed, the OIG was apparently unable to crack the books of the Oregon State Office. One would suspect that the Oregon State Office likely "re-programmed" a substantial amount of forestry funds for other purposes. For example, the Oregon State Office moved into its new headquarters several years ago. One could assume that forestry dollars were likely used for intensive management practices such as new carpets, new computers, etc.

Loss of timber growth and income

The report noted that the net value of lost timber growth with a value of \$36 million on lands that will be likely available for timber harvest and an additional \$28 million of commercial thinning of lands set aside for threatened or endangered species habitat restoration. The IG also noted that approximately 1.7 billion board feet of future timber growth with a value of \$200 million will be lost if the existing backlogs are not eliminated. (Or \$142 million of lost funds after deletions for lands set aside for habitat restoration).

Our only comment is that intensive management forestry is a sound investment on BLM lands in western Oregon. The priority for any government natural resource agency should be to provide a possible revenue source for future generations. Our children and grandchildren will be deprived of that economic value.

Disagreement with IG report

Although we generally concur with the findings of the IG audit report, we would do disagree with one assertion in the report. The OIG report states that the BLM timber sale program was stopped by the courts due to the "failure of the Bureau and other agencies to produce plans that satisfy the requirements of several laws, including the National Forest Management Act of 1976, the Endangered Species Act of 1973, and the National Environmental Policy Act of 1969." Federal judges such as Mr. Dwyer have acted quite unreasonably and narrow-minded in shutting down the federal sale programs. The impacts to the reforestation and logging contractors - not to mention the federal treasury - have been quite substantial as displayed in the next chart.

Table 3: BLM sale program: FY 1986 - 1993

	Sale Volume (billions of board ft)	Harvest Volume (billions of board ft)	Sale Value (millions of dollars)
FY 1986	1.35	1.21	147.2
FY 1987	1.14	1.23	136.8
FY 1988	1.01	1.64	217.7
FY 1989	0.73	1.34	199.1
FY 1990	1.17	0.94	206.4
FY 1991	0.43	0.54	96.8
FY 1992	0.05	0.59	181.3
FY 1993	.003	0.22	

We do understand the unwillingness of the BLM to invest reforestation and intensive management dollars with the great uncertainty of whether these forests will be available for harvest in the future.

Sale of private jet

We understand that the BLM will be selling or at least no longer leasing its private jet. We were never sure if reforestation funds were being used to pay for the operations of this jet, but I believe that it is quite inappropriate to maintain such an expensive item during this financially difficult time. We hope that this move by the BLM is the first step towards operating in a more financially efficient means.

Summary

We understand that the BLM now recognizes that there is a need for the agency to perform the backlog of intensive management work on its lands in western Oregon. We understand that the agency is expressing a willingness to change its methods of operations so that more on-the-ground work is accomplished. Our association would even support having the BLM employees to actually perform the manual work. We just want the work to get accomplished.

In conclusion, we would like to thank Representative Wyden for holding this hearing. We are most ready and willing to help in the intensive management work that will provide more forestry jobs in the short-term and more timber supply in the future.

**Statement of Jerry Rust, Lane County Commissioner,
before the Subcommittee on Regulation, Business Opportunities,
and Energy, Committee on Small Business,
US House of Representatives,
at the Field Hearing to Examine
Reforestation and Stand Enhancement Efforts
of the Bureau of Land Management in Western Oregon
May 9, 1994**

Thank you for this opportunity to appear before the subcommittee to discuss issues vital to our forest management in the Northwest. I have read the Inspector General's report on "The Forestry Operations in Western Oregon, Bureau of Land Management," and I have to say I am extremely disappointed to read that BLM has allowed the diversion of funds from forestry projects to pay for "overhead costs of nonforestry programs." If this abuse of discretion is true, it hurts our region in two ways: 1) it robs our region of immediate, much-needed jobs in reforestation and timber stand improvement activities; and 2) it robs our region of future timber supplies, future jobs and revenues.

However, the BLM is now under new management. The federal government is operating under a new philosophy of forest management, and forest management agencies in our nation and agencies like the BLM are struggling for a new identity and are at a crossroads. Now is the ideal time for a fresh start. Let us assume that proper cost accounting will prevail in the future. The remaining questions I wish to deal with today are: 1) With less dollars than needed to do adequate tree planting and other stand improvement activities, what are the most cost-effective investments that can be made with these limited dollars; and 2) What other activities can the BLM undertake that will be mutually beneficial to the BLM and local communities?

First some comments on the whole issue of reforestation and timber stand improvements.

Before entering local government service, I was a tree planter and, in fact, planted trees for the BLM in five of the six districts in Oregon. In my experiences I have personally planted roughly 500,000 trees and have worked with a company that planted tens of millions of trees. I have come to believe, however, that it is not how many trees you get in the ground but how many you get to survive and thrive. If we are going to do ecosystem management, I think we should shift to ecosystem tree planting.

What does this mean? I think we should plant trees of different species, allowing for diversity. Plant less trees but plant more in a quality way. This would mean much less burning of units for site preparation. It would mean finding proper sites on each unit to protect trees from animal and brush competition, finding shade spots to protect from sun scald, taking more time to dig deeper soils and finding deeper soil pockets, creating a microsite with a better scalp and perhaps erecting a shade block to get the tree through its first critical hot season.

In addition, the BLM should shift away from monocultural, even-age stands, and begin to look for ways to create a multi-level canopy of different species. For example, cedar and hemlock could be grown in wet and shady sites, and yew in certain areas. I also see no reason why we should try to eliminate hardwood species such as alder and maple. This kind of approach will begin to create a more varied, complex, biodiverse forest that is more natural. It seems to me,

by planting fewer trees, we can also stretch the dollars further. Again, the key principal here is to plant fewer but of a higher quality with more biodiversity.

Secondly, I would like to ask the Bureau of Land Management to look for creative opportunities in the commercial and precommercial thinning areas. Today, with the wood and fiber scarcity, there is virtually no material that cannot be marketed if it is economically feasible to remove it from a forest and get it loaded on a truck bound for market. I would highly encourage another look at stand inventories to select those stands which can be precommercially thinned for profit. We may find that there is virtually no precommercial definition left; that virtually all thinning has a commercial, as well as an ecologically-beneficial, payoff. These areas should make a difference in how we allocate scarce resources in order to meet the emerging federal ecosystem management philosophy, which I subscribe to, even while we are defining what it is we mean by "ecosystem management."

Finally, let me mention a project in Lane County which has the support of the government and the people of Lane County. This is the Oregon Pacific and Eastern Railway Company (OP&E) abandoned rail line assumed by the Bureau of Land Management, which is making plans for a world-class recreational facility. It is rare that we have an opportunity like this to convert an old facility into something that will assist in the diversification of our economy. This is an extremely important project which deserves the highest levels of support from our federal government. I have been impressed with the dedication of the Bureau of Land Management and its employees in the planning process and now in the implementation. This project has been written up in Backpacker Magazine. I am

including a copy of an article from the May, 1994 publication, which has already listed this trail as one of the top 12 recreation trails in the Western United States, even before it has been opened. This is the kind of activity that is welcome in Lane County, and I hope throughout Western Oregon. As BLM continues to redefine its role, I applaud its activity in this arena. For the record, I am also including a March 17, 1994 letter to former BLM Director Dean Bibler expressing Lane County's official support for this project.

This latter comment is not meant to downplay the importance or significance of forest management activities. The Bureau of Land Management manages some of the most productive forest lands in the entire world. I want our investments to be made in these areas so that we may continue to reap the benefits from these lands in perpetuity. It is also true that, with the changing economy, the business of recreation and tourism is also important. Therefore, I am pleased to be able to make the latter comment.

Finally, I thank the congressman for his inquiry and for his vigilance in making sure that our federal dollars are properly and wisely spent in efforts we can make in investing in these lands for our future.

MAY - 9 1994

STATEMENT OF ELAINE Y. ZIELINSKI, STATE DIRECTOR, OREGON AND WASHINGTON, BUREAU OF LAND MANAGEMENT, BEFORE THE SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES, AND ENERGY, COMMITTEE ON SMALL BUSINESS, UNITED STATES HOUSE OF REPRESENTATIVES, AT AN OVERSIGHT HEARING TO EXAMINE REFORESTATION AND STAND ENHANCEMENT EFFORTS OF THE BUREAU OF LAND MANAGEMENT IN WESTERN OREGON.

I appreciate the opportunity to appear here today to discuss issues relating to the reforestation and forest development (stand enhancement) efforts of the Bureau of Land Management (BLM) in western Oregon and respond to some of the statements in the recent Final Audit Report of Office of Inspector General (I.G.).

A major question that has been raised by the I.G. is the tree planting backlogs that have accumulated during the past few years and whether they have resulted from lack of funding. The tree planting backlogs are not primarily due to funding shortfalls. Unplanted acres are part of a normal reforestation operation. Seedling availability, operation scheduling, weather conditions, and air quality constraints all affect the timing of treating acres. These factors are anticipated and accounted for in allowable harvest models.

Natural causes have contributed to the problem of eliminating the tree planting backlogs. For example, the continuing drought has required that expensive special treatments be undertaken to maintain adequate stocking levels in new plantations -- reducing the availability of funds to address backlogs. Similarly, major wildfires have added to reforestation workloads, especially with respect to subsequent vegetation maintenance workloads.

The BLM has also been limited in its choice of tools to perform the necessary field operations. The favored site preparation method is broadcast burning, but limited burn opportunities under State air quality regulations have required that expensive replacement methods be employed, such as hand piling and slashing with chain saws. Other vegetation management tools, particularly herbicides, are unavailable even on a limited scale, requiring the use of these far more costly methods.

The BLM is systematically eliminating, within available funding limits, the existing backlog of precommercial thinning and fertilization consistent with current and anticipated resource management plans and objectives included in the President's Forest Plan. First priorities for treatment will be planting lands that have been harvested or damaged by wildfire, followed by growth enhancing treatments on lands allocated to timber production and to areas identified as needing treatment for ecosystem restoration purposes.

The BLM will identify funding needs to systematically eliminate the backlogs and to stay current with treatments that are consistent with the President's Forest Plan and Resource Management Plan allocations and objectives. The next opportunity to request funding priorities will be in the Fiscal Year (FY) 1996 budget process. However, these needs must be considered in the context of overall Federal spending needs.

The FY 1995 BLM budget request for reforestation and forest development is \$23,036,000. With this level of funding, we would be able to accomplish the highest priority work which includes site preparation, tree planting, and plantation maintenance.

The I.G. disagreed with the method used by BLM to allocate administrative expenses within program areas. The BLM specifically excluded accounts such as land acquisition projects under the Land and Water Conservation Fund, construction projects, and emergency fire fighting costs in an attempt to get as much project specific money as possible on the ground in those accounts.

The western Oregon and California lands (O&C) account does not have a specific line item designed to pay the majority of the overhead costs similar to the Management of Lands and Resources (MLR) Account. However, the administrative line item in the MLR account does pick up bureauwide costs for space, postage, and telephones for the O&C account.

We agree that prior to FY 1993, the overhead allocations in western Oregon were directed to some degree toward the forest management accounts. In February of 1992, the western Oregon districts and State Office management met to address this concern and develop objectives regarding the forest management budget allocations. A team was appointed to identify recurring indirect

costs that cannot be charged exclusively to a particular program, and to develop a method that would assure that all programs cover those costs using a pro rata share process. Our review of FY 1993 costs shows that the method developed did improve the equitability of the indirect cost spread. In addition, in FY 1995 BLM will exclude contracts for tree planting, stand maintenance, and seedlings from the pro rata share process that is currently being used. This has the potential for making an additional \$1 million available for project work.

The BLM is pursuing ways to measure performance and ensure accountability. Our goal is to develop effective performance measures that will track actual progress for which the agency will be held accountable. We are committed to managing change effectively and to improving business practices especially in the areas of budgeting and accounting. The BLM has proposed to the Congress in its 1995 budget justification a simplification of its budget structure. This will allow BLM to focus its attention on overall resource management rather than the administration of discrete program activities. This is consistent with the Administration's ecosystem-based approach to land and natural resource management. In addition, BLM will begin a major reengineering of its financial processes on May 16, 1994. As a part of this effort, BLM will simplify its financial reporting process and ascertain the most effective and equitable way to distribute administrative costs. We believe these efforts will significantly reduce the

funds being used for program administration and enable us to develop an accounting system along the lines suggested by the I.G.

An earlier I.G. report raised the separate issue of the "triple-tiered" management structure of the BLM and this is being addressed as a bureauwide issue. Oregon, along with other states, is currently looking at organizational streamlining options which will enable us to deal more efficiently with the challenges of ecosystem-based management. In addition, we are attempting to design organization structures which require less administrative and management support, thereby allowing more funds to be directed to on-the-ground activities. Final organizational decisions will be coordinated on a bureauwide basis and should be approved with the next three weeks.

This completes my prepared statement. I will be pleased to answer questions.



United States Department of the Interior

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FER 2 3 1991



Memorandum

To: Assistant Secretary - Land and Minerals Management

From: Acting Assistant Inspector General for Audits

Subject: Final Audit Report on Forestry Operations in Western Oregon, Bureau of Land Management (No. 94-I-359)

The Office of Inspector General has completed a review of the Bureau of Land Management's forestry operations in western Oregon. The objective of this review was to determine whether (1) the Bureau eliminated previously reported backlogs in reforestation and forest development activities, (2) forestry program funds were used only for their intended purposes, (3) easements needed to access Bureau timberlands had been expeditiously acquired, and (4) the Bureau was correctly estimating and recovering the costs of slash removal from timber sales purchasers.

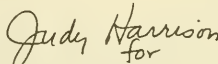
We concluded that the Bureau has reduced reforestation backlogs identified in our September 1990 audit report; however, forest development backlogs have increased since that time. These increased backlogs included forest development work on some of the acreage that was identified in our 1990 report and on acreage that has accrued since 1990. Reforestation and forest development are necessary to maximize timber growth and to restore habitat for threatened and endangered species, including the northern spotted owl. Backlogs continue to exist because forestry program funds totaling at least \$5.4 million were used for overhead costs of nonforestry programs and because the Bureau did not request or receive sufficient funding through the budget process to eliminate backlogs. Consequently, about 319 million board feet of future timber growth, with an estimated net value of up to \$64 million in future revenues, could have been lost, and about 1.7 billion board feet of additional timber growth, with an estimated net value up to \$200 million, could be lost if existing backlogs are not eliminated. Our estimates related to sales of timber harvested outside the areas identified for habitat of threatened or endangered species (including the northern spotted owl) and timber harvested through commercial thinning within those areas. If commercial thinning is not permitted in habitat of threatened and endangered species, future revenue losses will be reduced from \$64 million to \$36 million and from \$200 million to \$142 million.

We further concluded that the Bureau (1) could not pursue certain easements to access timberlands because of the tentative nature of habitat designations for threatened or endangered species and the related timber sales injunctions and (2) had recovered slash disposal costs from timber sales purchasers.

In the February 14, 1994, response (Appendix 6) from the Deputy Director, Bureau of Land Management, the Bureau indicated disagreement with our conclusion that a reforestation backlog of site preparation and tree planting exists and therefore with our recommendation (No. 3) to eliminate reforestation and forest development backlogs. Although the Bureau agreed with our recommendation (No. 2) to request sufficient resources to fully fund the reforestation and forest development activities, it did not agree with our recommendation (No. 1) to equitably allocate overhead costs to all benefiting programs. The Bureau also provided comments on the draft report's findings, and these comments were considered when the final report was prepared. Based on its response, the Bureau is requested to reconsider its responses to Recommendations 1 and 3 and to provide additional information for Recommendation 2. The status of the recommendations and the information needed for resolution of all the recommendations are in Appendix 7.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by May 5, 1994. The response should provide the information requested in Appendix 7.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.


for
Marvin Pierce

cc: Director, Bureau of Land Management

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INTRODUCTION

BACKGROUND

The Oregon and California Grant Lands appropriation provides for managing forests on Bureau of Land Management lands in western Oregon, including the revested Oregon and California Railroad grant lands, the reconveyed Coos Bay Wagon Road grant lands, and intermingled public domain lands. These lands, which are some of the most productive timberlands in the world, total approximately 2.9 million acres. The Bureau is responsible for managing approximately 2.4 million of these acres, and the Department of Agriculture's Forest Service is responsible for managing 500,000 acres of Oregon and California Railroad grant lands.

Oregon and California Railroad and Coos Bay Wagon Road grant lands are managed by the Bureau in accordance with the general policies and guidelines set forth in the Oregon and California Sustained Yield Act of 1937, which states that these lands are to be managed for the purpose of providing a permanent source of timber supply, protecting watersheds, regulating stream flow, contributing to the economic stability of local communities and industries, and providing recreational facilities. Public domain lands are managed in accordance with the Federal Land Policy and Management Act of 1976, which emphasizes that land-use planning should provide for managing these lands in accordance with the principles of multiple use and sustained yield.

The Bureau has six district offices under the Oregon State Office that manage timberlands in western Oregon (Coos Bay, Eugene, Lakeview, Medford, Roseburg, and Salem). The Bureau's forestry program in western Oregon is managed under two budget subactivities: (1) reforestation and forest development and (2) timber management. Reforestation activities include surveying sites to determine needs, preparing sites for planting, planting seedlings, maintaining plantation survival and growth by protecting seedlings from animals and competing vegetation, and conducting related contract administration functions. Forest development activities include precommercial thinning, fertilizing, converting hardwood and/or brush sites to producing commercial conifers, and conducting related contract administration functions. Timber management includes inventory and timber management planning, timber sale planning, timber sale preparation, timber sale contract administration, and timber management plan monitoring. The funding and staffing for these activities for fiscal years 1990 through 1993 were as follows:

<u>Funding (in Millions)</u>				
	<u>Reforestation and Forest Development</u>	<u>Timber Management</u>	<u>Total</u>	<u>Full-Time Equivalent Positions</u>
1990	\$49.1	\$33.6	\$82.7*	983
1991	39.2	27.4	66.6	1,097
1992	35.4	31.9	67.3	984
1993	29.1	29.2	58.3	983

*Includes \$30.1 million in funding from excess receipts that the Bureau could spend for either reforestation and forest development or timber management activities.

The Fiscal Year 1990 Appropriation Act (Public Law 101-121) provided additional funding for the Bureau's forestry program. Specifically, the Act provided the Bureau with 50 percent of the "excess receipts" from fiscal year 1989 timber sales over the amount (\$174.8 million) that had been estimated in the fiscal year 1990 President's Budget. This additional funding totaled about \$30.1 million and was specifically identified to be used for reforestation and forest development and timber management. The purpose of this additional funding was to enable the Bureau to meet increased program demands, including reducing reforestation and forest development backlogs.

Timber receipts from Oregon and California Railroad grant lands are divided equally between the Federal Government and the 18 western Oregon counties. Timber receipts from Coos Bay Wagon Road grant lands are used to pay Coos and Douglas Counties for taxes that were imposed on these lands by the State of Oregon, and the remainder of the receipts go to the U.S. Treasury. Timber receipts from public domain lands go to the U.S. Treasury (96 percent) and to the State (4 percent). During fiscal years 1990 through 1992, receipts from timber harvested in western Oregon were as follows:

<u>Land Category</u>	<u>Timber Receipts by Fiscal Year</u> (In Millions)		
	<u>1990</u>	<u>1991</u>	<u>1992</u>
Oregon and California*	\$180.0	\$118.7	\$164.4
Coos Bay	8.7	3.9	6.7
Public Domain	<u>14.5</u>	<u>20.5</u>	<u>14.2</u>
Totals	<u>\$203.2</u>	<u>\$143.1</u>	<u>\$185.3</u>

*Excludes receipts from Oregon and California Railroad grant lands managed by the Forest Service.

In January 1992, timber sales on lands managed by the Bureau in western Oregon were virtually halted by Federal court orders. The foremost cause of this was the failure of the Bureau and other agencies to produce plans that satisfy the requirements of several laws, including the National Forest Management Act of 1976, the Endangered Species Act of 1973, and the National Environmental Policy Act of 1969. Timber sale restrictions evolved as a result of increased concern over the environmental impact of timber harvesting and the determination on June 22, 1990, by the U.S. Fish and Wildlife Service that the northern spotted owl was a threatened species under the Endangered Species Act of 1973. On April 2, 1993, the President convened a forest conference in Portland, Oregon, and subsequently created a task force to produce a plan to break the impasse over forest management in the Pacific Northwest and northern California. In July 1993, this task force produced a draft supplemental environmental impact statement on management of habitat within the range of the northern spotted owl. If adopted, the preferred alternative in this plan would reduce the Bureau's maximum annual allowable sales quantity of 1.176 billion board feet¹ to a probable annual sales quantity of

¹A unit of lumber measurement equal to 1-foot square by 1-inch thick.

304 million board feet. Regardless of whether this alternative is adopted, it is likely that the Bureau's future timber sales will be reduced significantly.

OBJECTIVE AND SCOPE

The objective of this review was to determine whether (1) the Bureau adequately planned, budgeted, and performed the needed levels of reforestation and forest development to eliminate previously reported backlogs of plantation maintenance, precommercial thinning, fertilization, and timber stand conversion; (2) forestry program funds were used only for their intended purposes; (3) easements needed to access Bureau timber lands had been expeditiously acquired; and (4) the Bureau was correctly estimating and recovering the costs of slash² removal from timber sales purchasers. From our survey, we concluded that the Bureau (1) could not pursue certain easements to manage and harvest timberlands because of the tentative nature of habitat designations for threatened or endangered species and the related timber sales injunctions and (2) had recovered slash disposal costs from timber sales purchasers. Consequently, we did not pursue these two issues any further.

Our review was performed from April through August 1993 at the Oregon State Office and the Coos Bay, Eugene, Medford, Roseburg, and Salem District Offices. We reviewed reforestation and forest development backlogs for fiscal years 1990 through 1993 and forestry program and overhead expenditures for fiscal years 1990 through 1992.

This performance review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, our review included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our review, we evaluated the system of internal controls to the extent that we considered necessary. The internal control weaknesses identified are discussed in the Finding and Recommendations section of this report. If implemented, the recommendations should improve the internal controls.

We also reviewed the Department of the Interior Annual Statement and Report, under the Federal Managers' Financial Integrity Act, for fiscal year 1992 to determine whether any reported weaknesses were within the objective and scope of our review. The Department's Annual Statement and Report did not address the Bureau's forestry program.

²Slash is debris such as logs, pieces of wood, bark, and branches left on the ground after timber is harvested.

PRIOR AUDIT COVERAGE

The Office of Inspector General has issued one audit report in the past 5 years related to the Bureau's Forestry Program in western Oregon. The report "Bureau of Land Management Forestry Operations in Western Oregon" (No. 90-105), issued in September 1990, concluded that the Bureau had not performed the planned levels of plantation maintenance, precommercial thinning, fertilization, and timber stand conversion. The report further concluded that the Bureau had not aggressively pursued needed easements to manage and harvest timberlands and had not fully recovered slash disposal costs from timber sales purchasers. The report contained three recommendations for correcting the deficiencies. The Bureau's response to the report adequately addressed all three recommendations. However, our current audit concluded that the Bureau still had not performed needed levels of reforestation and forest development.

The General Accounting Office issued one audit report in the past 5 years that addressed Bureau timber management. The report "Federal Timber Sales, Legislative and Administrative Assistance Provided to Timber Purchasers" (No. GAO/RCED-89-117), issued in April 1989, noted that the Bureau of Land Management and the Forest Service effectively administered the Federal Contract Payment Modification Act of 1984. Accordingly, we excluded this area from the scope of our audit.

FINDING AND RECOMMENDATIONS

REFORESTATION AND FOREST DEVELOPMENT

The Bureau of Land Management continues to experience significant reforestation and forest development backlogs in western Oregon. While the Bureau has made progress in reducing reforestation backlogs identified in our September 1990 audit report, forest development backlogs have increased since that time. The Bureau Manual (Section 5000) states that forest lands are to be managed in perpetuity to produce the highest level of timber available for harvest in accordance with the principles of sustained yield and multiple use management. Reforestation and forest development are necessary to maximize timber growth and to restore habitat for threatened or endangered species, including the northern spotted owl. Backlogs continue to exist because forestry program funds totaling at least \$5.4 million were used for overhead (administrative) costs of other programs and because the Bureau did not request or receive sufficient funding through the budget process to eliminate these backlogs. As a result, timber growth during fiscal years 1990 through 1993 with an estimated net value up to \$64 million in future revenues could have been lost, and additional timber growth, with a net value up to \$200 million, could be lost unless the existing backlogs are eliminated. Our estimates related to sales of timber harvested outside the areas identified for threatened or endangered species habitat and timber harvested through commercial thinning within these areas.

The Bureau Manual (Section 5700) states that the objectives of reforestation and forest development are to promptly establish forest cover on forest lands harvested or damaged by disasters and to obtain optimum growth of established forests on commercial forest land. The Bureau's timber management plans identify reforestation and forest development activities, which include site preparation, tree planting, plantation maintenance, precommercial thinning, and fertilization, as essential to forest management. The Bureau Manual (Section 5740) states that precommercial thinning and fertilization substantially increase timber growth. Also, the draft recovery plan for the northern spotted owl and the draft environmental impact statement for managing forests within the range of the northern spotted owl indicate that reforestation and forest development are desirable on lands set aside for habitat restoration to accelerate the recovery of threatened or endangered species and to possibly increase commercial timber harvests in future years.

The Bureau spent about \$19.1 million in excess receipts from timber sales to reduce, but not eliminate, backlogs in reforestation and forest development. Although additional funding was provided in fiscal year 1990 to address backlogs, existing backlogs at the end of fiscal year 1993 in precommercial thinning, fertilization, and timber stand conversion were at levels higher than those at the end of fiscal year 1989 (see Appendices 2 and 3). The backlogs at the end of fiscal years 1989 and 1993 were as follows:

<u>Backlog Type</u>	<u>Fiscal Year-End Backlogged Acres</u>		<u>Percent of Change</u>
	<u>1989</u>	<u>1993</u>	
Site Preparation	6,404	4,588	(28)
Tree Planting	13,559	3,676	(73)
Plantation Maintenance	107,706	43,742	(59)
Precommercial Thinning	43,269	60,119	39
Fertilization	127,034	162,007	28
Timber Stand Conversion	3,236	6,594	104

Overhead Costs

Five of the six district offices in western Oregon used forestry program funds totaling over \$5.4 million to pay overhead costs of other programs. Forestry program funds were spent for overhead costs of other programs and other appropriations because the Oregon State Office and its district and resource area offices did not establish overhead rates to equitably allocate overhead costs to programs. Consequently, during fiscal years 1990 through 1992, about \$5.4 million that should have been used to reduce reforestation and forest development backlogs was instead used to fund the overhead costs of other programs and other appropriations.

Overhead costs are those administrative costs incurred for a common purpose benefiting more than one program and not readily assignable to the cost objective benefited. These costs are normally charged to programs through an indirect cost rate that is the percentage of indirect costs to direct costs. Overhead costs of one program may not be charged to other programs.

We reviewed overhead cost allocations for fiscal years 1990 through 1992 for the five district offices visited. The State Office and all five districts reviewed allocated overhead costs inequitably based on funds available to programs rather than on benefits received. We were unable to review the Oregon State Office overhead allocation because the State Office did not identify all overhead costs that were charged to programs for the period under review. Examples of improper charges to forestry programs by district offices are as follows:

- In fiscal years 1990 through 1992, the Coos Bay, Eugene, Medford, Roseburg, and Salem District Offices used forestry program funds to pay for most or all of the costs of salaries for the District Manager offices and Divisions of Administration, which were allocable to all programs. For example, in fiscal year 1990 the Roseburg District charged the forestry program for the total cost of the salaries for the District Manager, Associate District Manager, and Public Affairs Specialist. These personnel benefited all programs in the Roseburg District. For the five districts, these charges resulted overall in about \$2.3 million in excess charges to the forestry program.

- In fiscal year 1990, the Medford District Office replaced the roof of its office building, which housed all programs, at a cost of about \$345,000. However, only \$40,000 was available from facilities maintenance, which should have funded the roof, so the District Office inappropriately classified the remaining cost of \$305,000 as overhead and charged it to the forestry program.

- In fiscal years 1990 through 1992, the Eugene, Medford, and Salem District Offices spent about \$214,000 to lease and purchase furniture. Although this furniture was for employees of all programs, it was charged entirely to the forestry program. Consequently, about \$83,000 of this amount was inappropriately charged to the forestry program.

- In fiscal year 1992, the Coos Bay District Office spent about \$45,000 for alterations to its office building for work on common areas, including wellness and learning centers. Although these centers benefited all employees, the forestry program was charged for the entire amount of these improvements, which included about \$17,000 in costs applicable to other programs.

As a result of inequitable overhead cost allocations in fiscal years 1990 through 1992, over \$5.4 million that should have been used to reduce reforestation and forest development backlogs was instead spent on other programs by the Coos Bay (\$870,000), Eugene (\$1.5 million), Medford (\$650,000), Roseburg (\$310,000), and Salem (\$2.1 million) District Offices.

In fiscal year 1993, the district offices in western Oregon developed rates to distribute overhead costs more equitably. However, some programs, including slash disposal, emergency fire suppression, and those with less than \$10,000 in funding, were not assessed any overhead costs. At the time of our review, the Oregon State Office was developing overhead rates for its programs and planned to exclude similar programs. While the development of overhead rates in fiscal year 1993 was a positive action, the excluded programs benefited from overhead activities, and we believe that they therefore should be assessed an equitable share of the overhead costs.

Budget Requests

Although the Bureau's Oregon State Office identified shortfalls in needed reforestation and forest development funding, the Bureau did not request sufficient funds through the budget process to effectively reduce backlogs in reforestation and forest development. For fiscal year 1993, the Oregon State Office notified the Bureau's headquarters that about \$63 million was needed to fund the reforestation and forest development program and specified that this funding level would eliminate reforestation backlogs by the end of that fiscal year. This amount was about \$28 million more than the \$35 million the Bureau received the previous year. However, the Bureau requested only \$33 million for reforestation and forest development, which resulted in increased backlogs.

Lost Growth and Related Revenues

At our request, the Bureau estimated that about 319 million board feet of timber growth, with an estimated net value of up to \$64 million (see Appendix 4), could have been lost because all needed reforestation and forest development work was not performed during fiscal years 1990 through 1993. The net value consisted of about \$36 million related to the harvest on timberlands not identified for threatened or endangered species habitat and about \$28 million that may be available for harvest from commercial thinning sales on lands set aside for threatened or endangered species habitat restoration. (The \$28 million loss will not occur if the final supplemental environmental impact statement and resource management plans prohibit commercial production of timber on lands set aside for habitat restoration.) If the needed reforestation and forest development work had been accomplished timely, about \$40.5 million (50 percent of gross lost revenues) would have been due the 18 western Oregon counties, and about \$23.5 million (gross lost revenues of \$40.5 million minus total expenses of \$17.0 million) would have been due the Federal Government. In addition, Bureau employees estimated that 1.7 billion board feet of future timber growth, with an estimated net value up to \$200 million (see Appendix 5), could be lost if existing backlogs are not eliminated. (About \$58 million of the \$200 million will not be lost if the Bureau is not allowed to have commercial thinning sales on lands set aside for habitat restoration.)

The funding of reforestation and forest development activities is very cost effective in areas identified for traditional timber harvest, as well as in areas identified for habitat restoration with commercial thinning. The return on investment for all reforestation and forest development activities averages about \$5 of revenue for every \$1 spent, with fertilization having the highest return on investment of about \$8 in revenue for every \$1 spent. Therefore, we believe that the Bureau should request sufficient financial resources to eliminate reforestation and forest development backlogs in western Oregon.

Recommendations

We recommend that the Director, Bureau of Land Management:

1. Develop a method for the Oregon State Office to use to allocate state, district, and resource area office overhead costs to programs that ensures an equitable and reasonable distribution in relation to benefits received.
2. Request sufficient financial resources through the budget process to fully fund the reforestation and forest development activities in western Oregon. Requested funding should include sufficient resources to eliminate existing backlogs and to prevent new backlogs from occurring.
3. Eliminate existing reforestation and forest development backlogs in accordance with the Bureau's existing timber management plans and future resource management plans to the degree that funding is made available.

Bureau of Land Management Response

The February 14, 1994, response from the Deputy Director, Bureau of Land Management (Appendix 6), expressed concurrence with Recommendation 2 and indicated nonconcurrence with Recommendations 1 and 3.

Recommendation 1. Although the Bureau indicated nonconcurrence with this recommendation, it agreed that a portion of the \$5.4 million of overhead charges could have been available to reduce forest development backlogs. The difference in amounts was related to Bureau overhead cost allocation policies. The Bureau stated that its policy was to exclude certain program costs in allocating overhead costs and that overhead costs were to be allocated as a percentage of total dollars.

Recommendation 3. The Bureau stated that there were no "existing reforestation backlogs" and that the site preparation and tree planting backlogs were actually "carryovers" that were "temporary in nature" and were "not the result of funding shortfalls."

Office of Inspector General Comments

Based on the Bureau's response, Recommendations 1 and 3 are unresolved. Although the Bureau concurred with Recommendation 2, it did not provide sufficient information to resolve the recommendation. The information needed for resolution of all the recommendations is in Appendix 7.

Recommendation 1. The Bureau's policy and practice to exclude specific direct program costs in computing and allocating overhead resulted in inequitable distributions of overhead to the remaining programs. In addition, we disagree with the Bureau that overhead should be allocated as a percentage of total dollars instead of total direct costs because this type of allocation includes overhead in the cost base to which overhead is distributed. Finally, we maintain that the entire \$5.4 million used for overhead could have been used for reforestation and forest development. At the Bureau's discretion, the excess receipts funds obtained in fiscal year 1990 were to be used for reforestation and forest development and for timber management. Also, the Bureau was authorized to reprogram timber management funds for reforestation and forest development activities. Therefore, the Bureau could have used timber management funds that were used to pay overhead costs of nonforestry programs to reduce the reforestation and forest development backlogs. We request that the Bureau reconsider this recommendation.

Recommendation 3. We disagree with the Bureau's position that there were no existing reforestation backlogs. The backlogs of site preparation and tree planting presented in the report do not include carryovers. On November 16, 1993, Oregon State Office officials confirmed that they did not include carryovers related to adverse weather and environmental conditions in the figures they provided us on the amount of these backlogs. Consequently, backlogs were not beyond the control of Bureau personnel. Also, the Bureau did not comment on the reforestation backlog in plantation maintenance. We request that the Bureau reconsider this recommendation.

CLASSIFICATION OF MONETARY AMOUNTS

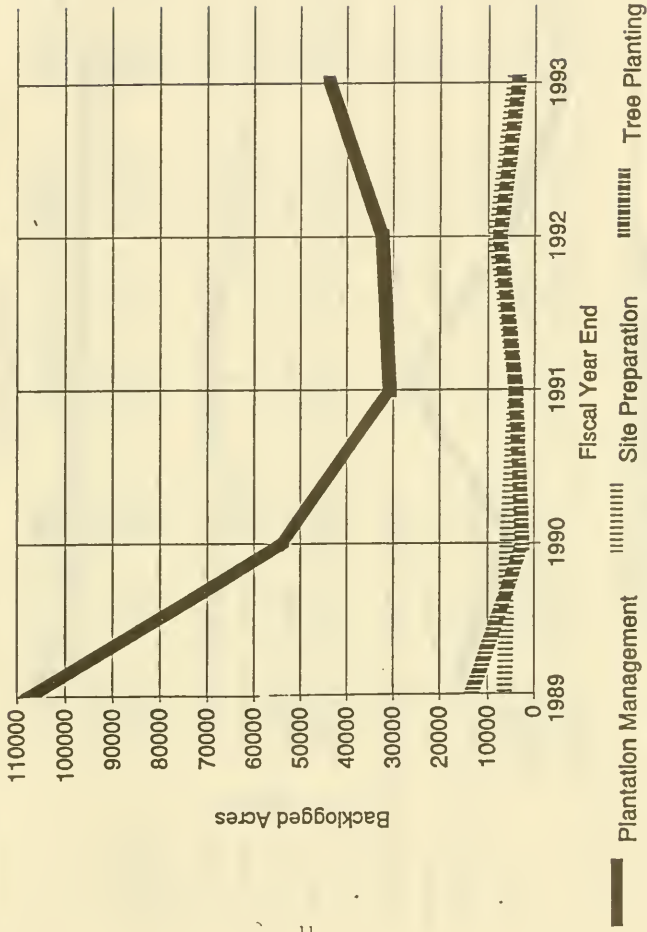
	Funds To Be Put To <u>Better Use</u> (In Millions)	Lost <u>Revenues</u> (In Millions)	Potential Additional <u>Revenues</u> (In Millions)
Forestry Program Overhead Costs	\$5.4*		
Lost Revenues From Backlogs Not Eliminated in Fiscal Years 1990 Through 1993		\$36 to \$64**	
Lost Revenues If Existing Backlogs Are Not Eliminated	_____	_____	\$142 to \$200***
Total	<u>\$5.4</u>	<u>\$36 to \$64</u>	<u>\$142 to \$200</u>

*In fiscal years 1990 through 1993, forestry program funds of over \$5.4 million were expended on overhead costs unrelated to forestry programs.

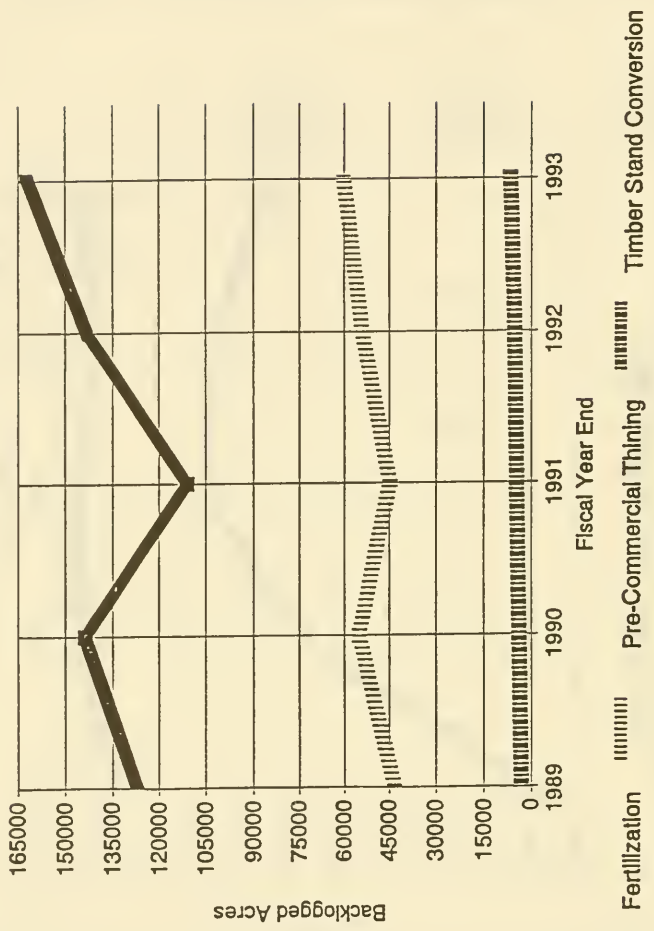
**Amount represents the volumes and relative revenues forgone by delay and forfeit of reforestation and forest development activities during fiscal years 1990 through 1993. Costs and revenues are discounted to the net present value using a uniform 4 percent interest rate. Estimated lost growth assumes commercial thinning at 45 years and final harvest at 60 years.

***Amount represents the volumes and relative revenues that will be forgone if existing backlogs as of October 1, 1993, are not eliminated. Costs and revenues are discounted to the net present value using a uniform 4 percent interest rate. Estimated lost growth assumes commercial thinning at 45 years and final harvest at 60 years.

Year-End Reforestation Backlogs Fiscal Years 1989 Through 1993



Year-End Forest Development Backlogs
Fiscal Years 1989 Through 1993



**VALUE OF LOST TIMBER GROWTH FROM REFORESTATION
AND FOREST DEVELOPMENT NOT
PERFORMED DURING FISCAL YEARS 1990 THROUGH 1993***

Backlog Type	Land Managed For Harvesting				Land Managed For Habitat Restoration				Total Managed Timberland			
	Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth		Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth		Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth	
Reforestation												
Site Preparation	\$1,363,631	\$481,588	\$882,043		\$162,318	\$243,965	\$(81,647)		\$1,525,949	\$725,553	\$800,396	
Tree Planting	992,698	187,648	805,050		142,391	114,427	27,964		1,135,089	302,075	833,014	
Plantation Maintenance	7,538,692	1,545,259	5,993,433		16,884,452	3,585,432	13,299,020		24,423,144	5,130,691	19,292,453	
Subtotal	\$9,895,021	\$2,214,495	\$7,680,526		\$17,189,161	\$3,943,824	\$13,245,337		\$27,084,182	\$6,158,319	\$20,925,863	
Forest Development												
Precommercial Thinning	\$16,716,645	\$4,238,231	\$12,478,414		\$9,650,451	\$3,401,081	\$6,249,370		\$26,367,096	\$7,639,312	\$18,727,784	
Fertilization	16,264,460	1,386,000	14,878,460		9,440,823	773,570	8,667,253		25,705,283	2,159,570	23,545,713	
Timber Stand Conversion	1,682,382	732,716	949,666		289,278	396,905	(107,627)		1,971,660	1,129,621	842,039	
Subtotal	\$34,663,487	\$6,356,947	\$28,306,540		\$19,380,552	\$4,571,556	\$14,808,996		\$54,044,039	\$10,928,503	\$43,115,536	
Total	\$44,558,508	\$8,571,442	\$35,987,066		\$36,569,713	\$8,515,380	\$28,054,333		\$81,128,221	\$17,086,822	\$64,041,399	

*The value of lost timber growth and costs of reforestation and forest development activities were estimated by Bureau of Land Management personnel.

**The value of lost timber growth is based on the October 1993 average timber sales price of \$609 per thousand board feet.

**VALUE OF POTENTIAL LOST TIMBER GROWTH FROM EXISTING
REFORESTATION AND FOREST DEVELOPMENT BACKLOGS
AS OF OCTOBER 1, 1993***

Backlog Type	Land Managed For Harvesting				Land Managed For Habitat Restoration				Total Managed Timberland			
	Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth		Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth		Total Value Lost Growth**	Cost of Activity	Net Value Lost Growth	
Reforestation												
Site Preparation	\$7,654,339	\$2,703,254	\$4,951,085		\$527,915	\$793,458	\$(265,543)		\$8,182,254	\$3,496,712	\$4,685,542	
Tree Planting	9,086,651	1,717,631	7,369,020		778,028	625,231	152,797		9,864,679	2,342,862	7,521,817	
Plantation Maintenance	2,908,887	987,922	1,920,965		9,136,145	2,609,567	6,526,578		12,045,032	3,597,489	8,447,543	
Subtotal	<u>\$19,649,877</u>	<u>\$5,408,807</u>	<u>\$14,241,070</u>		<u>\$10,442,088</u>	<u>\$4,028,256</u>	<u>\$6,413,832</u>		<u>\$30,091,965</u>	<u>\$9,437,063</u>	<u>\$20,654,902</u>	
Forest Development												
Precommercial Thinning	\$37,161,773	\$8,634,607	\$28,527,166		\$9,047,293	\$1,097,616	\$5,949,677		\$46,209,066	\$11,732,223	\$34,476,843	
Fertilization	105,553,659	13,476,686	92,076,973		53,867,654	7,650,689	46,216,965		159,421,313	21,127,375	138,293,938	
Timber Stand Conversion	13,525,958	5,890,866	7,635,092		2,145,517	3,061,513	(915,996)		15,671,475	8,952,379	6,719,096	
Subtotal	<u>\$156,241,390</u>	<u>\$28,002,159</u>	<u>\$128,239,231</u>		<u>\$65,060,464</u>	<u>\$13,809,818</u>	<u>\$51,250,646</u>		<u>\$221,301,854</u>	<u>\$41,811,977</u>	<u>\$179,489,877</u>	
Total	<u>\$175,891,267</u>	<u>\$33,410,966</u>	<u>\$142,480,301</u>		<u>\$75,502,552</u>	<u>\$17,838,074</u>	<u>\$57,664,478</u>		<u>\$251,393,819</u>	<u>\$51,249,040</u>	<u>\$200,144,779</u>	

*The value of lost timber growth and costs of reforestation and forest development activities were estimated by Bureau of Land Management personnel.

**The value of lost timber growth is based on the October 1993 average timber sales price of \$609 per thousand board feet.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
Washington, D.C. 20240

FEB 15 1994

5400 (230/840)

MEMORANDUM

To: Assistant Inspector General for Audits

Through: Bob Armstrong *May L. Hays* FEB 15 1994
Assistant Secretary--Land and Minerals ManagementFrom: Director--Bureau of Land Management *[Signature]*Subject: Response to Office of Inspector General (OIG) Draft Audit Report,
"Forestry Operations in Western Oregon, Bureau of Land Management"
(BLM), Report No. C-IN-BLM-001-93

Thank you for the opportunity to comment on the subject draft report. We recognize and appreciate the changes that were made in the draft report as a result of the discussion between the BLM Oregon State Office and the OIG during the informal review last November.

The Background, Objective and Scope, and Prior Audit Coverage sections of this report present a generally comprehensive and accurate introduction to the objectives of this audit effort. However, we do not entirely agree with all of the Findings and Recommendations as analyzed and concluded by this report. Attachment 1 contains our specific comments on the draft Findings and Recommendations.

If you have any questions concerning our response, please contact Ed Shepard, Division of Forestry, at (202) 452-7755 or Lee Larson, BLM Audit Liaison Officer, at (202) 452-5168.

Attachment

RESPONSE TO OFFICE OF INSPECTOR GENERAL DRAFT FINDINGS AND RECOMMENDATIONS

Draft Audit Report No. C-IN-BLM-001-93 Bureau of Land Management Forestry Operations in Western Oregon

Finding A - Reforestation and Forest Development

We concur with the Inspector General's interpretations of the Bureau of Land Management (BLM) manual and timber management plan objectives. We also agree with the "backlog" reforestation and forest development acres as shown in the 1989-1993 accomplishments table. We recommend that the term "carryover" be used for site preparation and tree planting. These activities have always been our first priority and are not limited by reforestation or forest development funding levels. Carryover acres in these categories are due to poor weather conditions for adequate site preparation (burning) or temporary shortage of seedlings from the proper genetic seed zones (approximately 125).

Existing Timber Management Plans and Proposed Resource Management Plans call for prompt reforestation as a high priority, but include a "regeneration lag time" of up to five years. This lag time is calculated into sustained yield models. Normal forest management practices do not allow for completing reforestation on all available acres within one year, so carryover is planned and expected.

We agree that reforestation and forest development are desirable on lands "set aside" for habitat restoration to accelerate the recovery of certain endangered species. The BLM is committed to protection and management of habitat for threatened and endangered species. Reforestation activities will be conducted with this in mind.

We recommend not using the term "maximize" timber growth because we actually optimize timber growth in relation to other resource values and financial returns.

The table on page 10 is misleading relative to actual BLM workload accomplishments from fiscal year (FY) 1989 to FY 1993. For example, we treated 194,157 acres of plantation maintenance during this period, which is 86,451 more acres than the backlog noted in FY 1989 ($107,706 + 86,451 = 194,157$). However, biological processes created 130,193 ($86,451 + 43,742 = 130,193$) new acres under this treatment category. A clearer picture of the BLM's efforts for reforestation and forest development would be to include all workload accomplishments during this period in the table on page 10.

Finding B - Overhead Costs

We do not agree that the \$5.4 million used for overhead (administrative) costs should have been available to reduce both reforestation carryover and forest development backlog. Any funds made available by a more favorable overhead allocation process would have been utilized only for the forest development backlog. We believe that the actual amount of overhead costs that could have been available to reduce forest development backlog is closer to \$1.0 million. The rationale for this assertion is as follows:

1. The draft report indicates that the \$5.4 million used for overhead (administrative) costs should have been available to "reduce reforestation and forest development backlogs." This statement does not adequately recognize the difference in the forestry program between "reforestation/forest development" and "timber management." The inference is that all of the \$5.4 million identified as excess overhead costs could be used to reduce the reforestation backlog when, in fact, about \$2.4 million was attributable to timber management and would not have been available to help with the forest development shortfalls. Therefore, only \$3 million of the estimated \$5.4 million dollars could have been made available for reforestation and forest development.
2. The draft audit report calculations for overhead are based on overhead as a percentage of "direct" dollars. It is our position that overhead is a percentage of total dollars. As such, we believe that we are calculating a fair share of program support costs. This difference reduces the \$3.0 million to \$2.5 million available for reforestation and forest development carryover and the dollars available for timber management to \$2.0 million.
3. The draft audit report definition of "overhead costs of other programs and other appropriations" includes subactivities which Oregon/Washington has specifically excluded from overhead. Subactivities related to construction, collections and trust funds, and any subactivity which is less than \$10,000 total funding are excluded. It is the BLM's policy to exclude emergency fire, construction, slash disposal, Pacific yew, and road maintenance dollars. This policy has a major impact on the overhead calculation, reducing the amount that the reforestation and forest development accounts "overpaid" to \$1.0 million, and the amount that the timber management accounts "overpaid" to \$900,000 for a total of \$1.9 million.

In summary, the draft audit report \$5.4 million in overhead costs is actually a maximum of \$1.9 million (\$1.0 million is available for forest development) because overhead costs should not be assessed on reimbursable, cost recoverable, and contributed fund projects which are already charged an indirect cost by the BLM or are congressional line item appropriations, such as construction or emergency firefighting funds.

In addition, the draft report asserts that we inappropriately classified facilities maintenance costs and charged them to the forestry program (page 11 of draft). The administrative provisions of the Interior Appropriations Act provide that "Appropriations for the Bureau of Land Management shall be available for purchase, erection, and dismantlement of temporary structures, and alterations and maintenance of necessary buildings and appurtenant facilities to which the United States has title."

Finding C - Budget Requests

We concur with this Finding.

Finding D - Lost Growth and Related Revenues

We agree that the return on investment for forest development activities is positive for all intensive management practices on land allocated for intensive forest management. We also agree that wildlife habitat restoration using commercial thinning is a high priority inside of reserve areas.

However, we believe that the statement "\$64 million was lost" may be misleading to the casual reader of this draft report without further explanation. We request that you include the following table in your final audit report.

Net Values of Lost Timber Growth, Fiscal Years 1990-1993

	LUA Harvesting	LUA Habitat Restor.	Total
Reforestation	\$7,681,000	\$13,245,000	\$20,926,000
Forest Development	\$28,307,000	\$14,809,000	\$43,116,000
	\$35,988,000	\$28,054,000	\$64,042,000

From the above information, we observe an estimated \$36 million loss from land use allocations (LUA's) which allow treatments that would result in commodity (timber) production. The additional \$28 million estimated loss assumed density control in late successional reserves. If the final Supplemental Environmental Impact Statements on the Forest Plan and the BLM Resource Management Plans (RMP's) prohibit commodity production in these Late Successional Reserves (which is a possibility), the \$28 million loss estimate becomes invalid as these lands would not be available for harvest.

The FY 1993 "Backlogged Acres" (page 10 of draft) reflect biological availability/opportunity only. They are not related to support of past Annual Sale Quantity or future Probable Sale Quantity timber production levels.

In regard to Appendices 4 and 5, the net value losses in site preparation and tree planting are only opportunity costs. There is no effect on allowable sale quantity due to the three-to-five year regeneration-lag times factored into the stand growth simulation model when calculating sustained yield production levels.

Recommendations

Draft Audit Recommendation 1: Develop a method for the Oregon State Office to use to allocate state, district, and resource area office overhead costs to programs that ensures an equitable and reasonable distribution in relation to benefits received.

Bureau Comment for 1: We request you revise this to read:

Direct the BLM Oregon State Office to continue development and refinement of the new method for allocating State, district, and resource area office overhead costs to programs that will ensure a fair and reasonable distribution. This refinement process should include specific BLM guidance on the inclusion/exclusion of any programs that benefit from overhead activities and should be included in any revision of the budget process considered as part of the National Performance Review.

Rationale: We are unable to fully adjust the overhead allocation process as you recommend without specific budgetary policy change. The BLM, as well as all other agencies, is proposing new budgeting processes intended to improve efficiencies. Any changes or refinements in how overhead is allocated should be a part of this process.

Draft Audit Recommendation 2: Request sufficient financial resources through the budget process to fully fund the reforestation and forest development activities in western Oregon. Requested funding should include sufficient resources to eliminate existing backlogs.

Bureau Comment for 2: - No change requested.

Draft Audit Recommendation 3: Eliminate existing reforestation and forest development backlogs in accordance with the BLM's timber management plans.

Bureau Comment for 3: - We request you revise this to read:

Implement future RMP's that will provide for prompt reforestation with appropriate carryover levels, prevent new stand maintenance and forest development backlogs, and minimize/eliminate old backlogs to the degree that funding is made available.

Rationale: We believe that there is no "existing reforestation backlog." Site preparation and tree planting carryovers are not the result of funding shortfalls and are temporary in nature.

The new BLM RMP's are ecosystem based in concept and are intended to consider "all the parts" of the environment. Therefore, we will have no "timber management plans," as such.

Implementation of new RMP's with new land use allocations will immediately change the significance of the FY 1993 acres (page 10 of draft) shown as backlog. The first priority for treatment will now be lands that produce a wood harvest commodity as the result of ecosystem-based management. It would be misleading to include lands now managed for wildlife habitat restoration as part of the traditional backlog. However, if any of these wildlife areas are planned for future wood harvest commodities, it would be wise to consider these areas as a future volume/value investment after the first priority areas have been treated.

STATUS OF AUDIT REPORT RECOMMENDATIONS

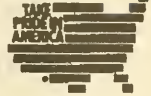
<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1 and 3	Unresolved.	Reconsider the recommendations, and provide plans identifying actions to be taken and target dates and titles of officials responsible for implementation.
2	Management concurs; additional information needed.	Provide target dates and titles of officials responsible for implementation.



W-IN-OAS-002-92C

United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Headquarters Audits
1550 Wilson Boulevard
Suite 401
Arlington, VA 22209



MAR 29 1994

MEMORANDUM AUDIT REPORT

To: Assistant Secretary - Land and Minerals Management

From: Acting Assistant Inspector General for Audits

Subject: Audit Report on Lease/Purchase of Aircraft for the Oregon State Office,
Bureau of Land Management (No. 94-I-476)

INTRODUCTION

This report presents the results of our audit of the Bureau of Land Management's lease/purchase of a \$3 million aircraft for its Oregon State Office. The objective of the review was to determine whether the lease/purchase option was based on an adequate cost evaluation conducted in accordance with the provisions of Office of Management and Budget Circular A-76, "Performance of Commercial Activities." This audit is part of an overall review of the Department of the Interior's Federal Civilian Aircraft Management Program. We concluded that the Bureau's lease/purchase of the aircraft was based on an inaccurate study of acquisition alternatives.

BACKGROUND

The Oregon State Office's mission is to manage about 16 million acres of public lands and public resources in Oregon and Washington. To accomplish its mission, the State Office operates a variety of programs, such as forestry management, lands and mineral records management, cadastral survey, fire management, and law enforcement. These programs are carried out by personnel located in the State Office and its 10 district offices, of which 5 are not served by commercial air transportation. Therefore, the State Office has to obtain some of its air travel services through the private sector or through in-house aircraft. The Bureau acquires

aircraft and aircraft services for its offices through the Department of the Interior's Office of Aircraft Services. As part of the annual budget, the Congress authorizes Aircraft Services to purchase a specified number of aircraft for the Department.

Before purchasing, leasing, or otherwise acquiring aircraft and related services, Office of Management and Budget Circular A-126, "Improving the Management and Use of Government Aircraft," requires that agencies comply with Office of Management and Budget Circular A-76 to "assure that these services cannot be obtained from and operated by the private sector more cost effectively." Circular A-76 requires agencies to compare the Government's costs with private sector costs for providing aircraft services. If the Bureau can properly justify and fund the purchase of an aircraft, Aircraft Services acquires the aircraft within the Congressionally authorized number of aircraft purchases.

SCOPE OF AUDIT

We conducted our audit at the Bureau's Oregon State Office in Portland, Oregon, and its National Aviation Office in Boise, Idaho, and at Aircraft Services headquarters office in Boise. To accomplish our objective, we analyzed the Bureau's documentation and support for justifying the acquisition of a \$3 million aircraft. The Bureau said that it acquired the aircraft in May 1992 to meet an ongoing need for aircraft services throughout the northwest.

The audit was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances to accomplish the audit objective. Because the scope of the review was limited to evaluating the Bureau's Circular A-76 study, we did not assess the State Office's system of internal controls. As part of the audit, we reviewed the Department of the Interior's Annual Statement and Report, required by the Federal Managers' Financial Integrity Act, for fiscal years 1991 and 1992. The Department did not report any control weaknesses that related to the objective and scope of our audit.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the Office of Inspector General nor the General Accounting Office has issued any reports related to the Bureau's acquisition of the State Office's aircraft.

RESULTS OF AUDIT

The Bureau of Land Management's decision in December 1991 to purchase a \$3 million aircraft for its Oregon State Office was based on a study of acquisition alternatives that contained inaccuracies. Office of Management and Budget Circular A-126 requires agencies to ensure that aircraft services are acquired in the most cost-effective manner, and Circular A-76 requires that a comparative analysis study be performed of providing the services in-house versus acquiring them through the private sector. However, the Bureau's study contained errors that understated Bureau costs of acquiring and operating the aircraft and overstated the costs of contracting with the private sector for the related aircraft services. As such, the Bureau concluded that the services could be provided in-house at a lower cost, whereas, based on our adjustments to correct the errors in the Bureau's study, we concluded that the cost to provide the services in-house was actually \$3.77 million more than contracting for the services through the private sector. We also recalculated the study costs using Office of Management and Budget guidelines issued subsequent to our review and concluded that as of November 1993, the services could be provided by the private sector for \$2.4 million less than the Government by continuing the aircraft lease or exercising the purchase option of the lease.

In August 1991, the Bureau established a team to prepare a study to meet the requirements of Circular A-76 for the aviation operations of the Oregon State Office. According to the study, signed in December 1991 by the Director, Bureau of Land Management, the purchase of a \$3 million aircraft (Beechcraft King Air 200) would result in State Office aviation operations costs of \$5.5 million over a 10-year period, while contract aviation operations costs for comparable services over the same period would be \$6.6 million, or \$1.1 million more. Since Congressional funding to purchase the aircraft had not been obtained, the Office of Aircraft Services acquired the King Air 200 for the State Office through a 5-year lease beginning in May 1992, with annual renewals. At the end of the lease, Aircraft Services will own the aircraft, since the purchase option price was zero. Under the lease method, the total cost for purchase is \$3.9 million, or \$900,000 more than the initial purchase price.

We found that the study substantially understated total Government costs and overstated contract costs. As a result, we determined that the cost of contracting for aircraft services was actually \$3.77 million less than performing these services in-house over the 10-year period of the study as follows:

<u>Description</u>	<u>Bureau Estimated Costs</u>	<u>Audit Adjustments</u>	<u>Adjusted Estimated Costs</u>
Total Government Costs	\$5,506,548	<u>\$3,268,147</u>	\$8,774,695
Total Contract Costs	<u>\$6,632,896</u>	<u>(\$1,624,315)</u>	<u>\$5,008,581</u>
Government Costs Less Than Contract Costs	<u>\$1,126,348</u>		
Contract Costs Less Than Government Costs			<u>\$3,766,114</u>

The most significant adjustments to the Bureau's estimated costs for the Government option were due to understatement of cost of capital (\$2.2 million) and omission of lease costs in excess of the aircraft purchase price (\$900,000). For the contracting option, the most significant adjustments were due to overstatements of standby time (\$700,000) and operations overhead (\$500,000). Our adjustments are detailed in Appendix 2.

Circumstances have changed since the Bureau completed its Circular A-76 study in December 1991. First, on September 21, 1993, and subsequent to completion of our review, the Office of Management and Budget issued revised draft guidance for preparing Circular A-76 studies. We used the revised guidance and found that total Government costs still exceeded contract costs. We determined that as of November 1993, the cost of contracting for aircraft services was still \$2.4 million less than performing the aircraft service in-house as follows:

<u>Description</u>	<u>Bureau Estimated Costs</u>	<u>Audit Adjustments</u>	<u>Adjusted Estimated Costs</u>
Total Government Costs	\$5,506,548	<u>\$1,921,545</u>	\$7,428,093
Total Contract Costs	<u>\$6,632,896</u>	<u>(\$1,624,315)</u>	<u>\$5,008,581</u>
Government Costs Less Than Contract Costs	<u>\$1,126,348</u>		
Contract Costs Less Than Government Costs			<u>\$2,419,512</u>

The adjustments required by the revised guidelines were applicable to the Bureau's estimated costs for providing the services in-house, which included reducing the depreciation expense by \$498,315, eliminating the cost of capital of \$279,800, and increasing lease costs by \$2.6 million. Second, based on the lease payment schedules,

the Bureau's lease costs will total almost \$1.3 million for the initial 18 months, with approximately \$780,000 creditable toward purchase if the option is exercised. As such, our estimate of these costs has been reduced to reflect the scheduled lease payments. Our adjustments are detailed in Appendix 3.

We also determined that if the Bureau exercised the option to purchase the aircraft under the lease, the Government's costs would still be greater than if it contracted for the services. Office of Management and Budget personnel said that leasing costs should include all payments made under the lease. Thus we adjusted these costs assuming that the Bureau exercised the option after the initial 18 months and acquired the aircraft for \$2.2 million. We revised the study for this change and, as discussed previously, found that contract costs were \$2.4 million less than performing the service in-house (Appendix 4). In our opinion, the Bureau needs to perform a new study using the revised draft guidance and obtaining advice from the Office of Management and Budget on the treatment of costs spent to date and the computation of cost of capital.

Recommendation

We recommend that before purchasing the aircraft, the Director, Bureau of Land Management, perform a new study under the requirements of Office of Management and Budget Circular A-76 to determine the most cost-effective means of providing aviation operations for the Oregon State Office. In performing the study, the Bureau needs to determine, through the Office of Management and Budget, an appropriate method for addressing the costs incurred to date and treatment of the value of the aircraft if the purchase option is exercised before the lease expires.

Bureau of Land Management Response

The February 17, 1994, response from the Acting Director, Bureau of Land Management (Appendix 5), disagreed with the conclusion that the decision to purchase the aircraft was based on an inaccurate study of acquisition alternatives. The Bureau stated that the study was conducted in accordance with Office of Management and Budget guidance in effect at the time. However, the Bureau stated that it would perform the recommended study under the requirements of Circular A-76 to determine the most cost-effective means of providing aviation operations for the Oregon State Office.

The Bureau further stated that the Interagency Committee for Aviation Policy has begun development of a cost analysis guide that will provide standardized guidelines and consistent direction for all agencies to use in preparing required Circular A-76 studies associated with meeting aviation needs. The Bureau said that once the guide is completed, it will conduct an independent study to determine the most cost-effective means of providing aviation operations for the Oregon State Office. The

Bureau identified the Assistant Director, Resource Protection, as the individual responsible for implementation and September 30, 1994, as the implementation date.

In other comments on the finding in the report, the Bureau said that the cost of leasing the aircraft was not taken into consideration because the intent was to directly purchase the aircraft; the direct operating costs were equal for both the Government and the contractor and, as such, they were a "wash"; and modifications to the aircraft were made after the study and therefore the costs for the modifications would not have been reflected in the original study. In addition, the Bureau said that it believed the revised study performed by us did not use "accurate historic data" in place of estimates from the original study.

Regarding the cost of capital, the Bureau said that the original study complied with Office of Management and Budget guidance, which has since been clarified. According to the Bureau, our calculation of the cost of capital "nearly doubles" the aircraft purchase price and that this is an "invalid method" for computing the cost of capital for any asset, "especially a major purchase such as an aircraft."

The Bureau said that in a September 20, 1993, meeting with officials from the Office of Management and Budget, the Bureau was "instructed" that the cost of capital should be computed as the interest cost applied to the outstanding balance of the capital asset value annually and that the cost of capital "must be applied or allowed for on the contractor's side." The Bureau further stated it was told that the cost of capital is included in lease costs paid to the contractor during the lease period.

The Bureau stated that we assumed that the money used to purchase the aircraft will not be available to earn interest. The Bureau continued that if this assumption is valid, the same amount of money used to acquire a full service contract also removes the money from circulation and prevents its use for "investment." The Bureau said that before it acquired the aircraft, the Oregon State Office was contracting out the service and as the costs increased, the Bureau "made an effort" to control the costs through application of the Circular A-76 process. The Bureau said that if it gave up the aircraft, the service would still be required and it would then contract for the service using the same amount of money (and more) to acquire the service. Since these dollars would not become available to "invest," according to the Bureau, the "true cost" of money applies for both a contract service and an in-house service. The Bureau said that the Office of Management and Budget "concurred with this reasoning" and that we have "failed to apply" the cost of money to the contract service.

The Bureau stated that the standby time was a "management estimate" in the original study and that after we had questioned the estimate, the Bureau asked six operators in Oregon that provide twin engine aircraft about standby time. According to the Bureau, the operators said that their pilots spent from half to three-fourths of their

time in standby status. The Bureau said that it had informed our auditors of this confirmation of standby time before our exit conference and that our figures represent only one customer's standby paid to an operator rather than the total standby for the operator for a year. The Bureau further stated that our figures do not reflect a full-service, exclusive-use contract and therefore are not applicable to our study. Also, the Bureau said that the number of standby hours we used reflects standby paid to vendors only on days for which they were actually hired.

Office of Inspector General Comments

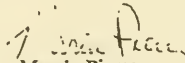
Based on the Bureau's response, the recommendation is considered resolved but not implemented. Accordingly, the unimplemented recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation (see Appendix 6).

Regarding the Bureau's additional comments to our report, we did modify the report's appropriate to address those comments, which related mainly to our adjustments to the original study that was used to acquire the aircraft. We recognize that the guidelines are subject to interpretation, and we based the audit adjustments on our understanding of the cost principles behind the guidance in effect at the time of the original study and on historical data available from the Office of Aircraft Services. The Bureau's intent at the time of the study was to purchase the aircraft. The Bureau changed to a lease/purchase arrangement after completing the study. As such, we still believe that foregone interest income on the total cost of the aircraft should have been included in the original study for each year in the study period.

As stated in the report, we also prepared alternate studies (Appendices 3 and 4) based on the September 1993 guidance from the Office of Management and Budget. These studies, which addressed most of the issues identified by the Bureau, included actual lease payments and eliminated the total cost of capital. The direct operating costs were not a "wash" because the Bureau included these costs for the contractor but did not include them as Government costs. Also, we did not revise the standby costs because the Bureau did not provide documents or the actual number of standby hours to substantiate its statement that for six operators contacted, "Half to three-quarters of their pilots' time is spent in standby." In addition, not every standby hour may be chargeable under an exclusive use contract, according to an Office of Aircraft Services official. Further, even if the total annual standby costs of \$100,000 were considered, the Government's cost would still be more than contracting for the services. The \$2.4 million we identified in Appendix 1 as funds to be put to better use was based on the alternate studies.

Since the report's recommendation is considered resolved but not implemented, no further response to this office is required (see Appendix 6).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.


Marvin Pierce

cc: Director, Bureau of Land Management
Director, Office of Aircraft Services
Directorate of Program Services

APPENDIX 1

CLASSIFICATION OF MONETARY AMOUNT

<u>Finding</u>	<u>Funds To Be Put To Better Use</u>
Aircraft Purchase	\$2.4 Million

*The amounts reflects the additional costs of providing the aviation operations in-house over the 10-year study period.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240



APR 19 1994

Honorable Ron Wyden
Chairman, Subcommittee on Regulation,
Business Opportunities, and Technology
Committee on Small Business
House of Representatives
Washington, D.C. 20515-6318

Dear Mr. Chairman:

This is in response to your March 10, 1994, letter requesting additional information on our February 23, 1994, audit report entitled "Forestry Operations in Western Oregon, Bureau of Land Management." Specifically, you asked for our opinions on certain statements attributed to Bureau of Land Management employees that were contained in the March 5, 1994, issue of "The Oregonian."

The employees' statement that the problems cited in our report had been corrected is not accurate. Specifically, the forestry (reforestation and forest development) backlogs had not been eliminated as of September 30, 1993. However, the backlogs in reforestation (for example, tree planting) were minor compared with those in forest development (for example, fertilization). In its response to our draft audit report, the Bureau disagreed with our recommendation to eliminate existing reforestation and forest development backlogs because it said that there is no existing reforestation backlog. We have asked the Bureau to reconsider the recommendation.

You also asked whether funding intended for reforestation and timber stand enhancement was actually spent for that purpose. Our report concluded that funds of \$5.4 million for forest development, which includes both reforestation and forest development and timber management activities, were used to pay overhead costs of other programs not related to forestry. Therefore, these funds were not used for their intended purpose. Of the \$5.4 million, about \$2.4 million was related to timber management (timber sales) and about \$3 million to reforestation and forest development. It should also be noted that the \$2.4 million could have been directed to reforestation and forest development because the Bureau was authorized to reprogram timber management funds for reforestation and forest development activities.

Concerning the Bureau's use of program funds to pay for administrative costs, we believe that forest development funds should be used to pay only the overhead (administrative) costs related to forestry programs on the Oregon and California Grant Lands in western Oregon. The Bureau used the Oregon and California Grant Lands appropriation to supplement overhead costs related to other appropriations, which is not proper. As such, building repairs should have been paid for with facilities maintenance funds, not with forest development funds. Also, furniture and wellness centers (recreation, not health) should have been charged to all of the Bureau's Oregon programs on a pro rata basis, such as a percentage of direct costs. Furthermore, the Bureau does not request funding for administrative support for its Oregon and California Grant Lands appropriation, although it does request such funding for its major appropriation, Management of Lands and Resources. Because of an absence of an equitable methodology for allocating administrative support costs, the Oregon State Office inappropriately charged, to the Oregon and California Grant Lands appropriation, administrative costs related to the Management of Lands and Resources appropriation and other minor appropriations.

Regarding the emergency repairs, these costs should have been charged to the facilities maintenance budget subactivity. If sufficient funds did not exist in that subactivity to cover the emergency repairs, then the Bureau should have formally reprogrammed funds from another subactivity (or activities) to pay for the repairs.

Regarding the shifts of overhead costs, this may be routine, but the methods used by the Oregon State Office were inappropriate. It is not correct to charge overhead costs applicable to a number of programs and appropriations to only one program and appropriation. Similar accounting problems were included in our audit report entitled "Staffing and Resource Allocation, Bureau of Land Management" (No. 92-1-367), dated January 31, 1992. One of our conclusions was that the Bureau's accounting records did not accurately reflect the actual costs incurred under the Bureau's Management of Land and Resources appropriation. As a result, annual budget justifications and reported costs were inaccurate and misleading and adversely impacted program planning and monitoring. One reason for this condition was that the Bureau uses a concept called "benefiting subactivity," which allows costs associated with one program to be charged to another program subactivity. This flexibility was being misused by many Bureau field offices. That report recommended that the Bureau discontinue the use of the benefiting subactivity concept and identify actual funding levels needed for administrative support in the annual appropriations process.

Regarding the correlation between the significant decrease in reforestation and forest development funding and the relatively stable level of timber management and full-time employment funding, I do not believe that an assumption should be drawn that funds are being "shifted" to "shore up FTE's." As indicated in both our current and

former audit reports on forestry operations, the Bureau had not requested and had not received sufficient funding to meet the needs of the forestry programs, and forestry funds were used for non-forestry programs.

We believe that these problems, combined with the failure of the Bureau to effectively utilize its available resources, caused significant backlogs not only in the forestry program but also in the inspection and enforcement, drainage, grazing, land exchange, and other Bureau programs. As Inspector General James R. Richards stated in his February 25, 1992, testimony (Enclosure) before the Subcommittee on National Parks and Public Lands Committee on Interior and Insular Affairs, U.S. House of Representatives, concerning our staffing report noted above, "Generally we agree that it may not be possible for the Bureau to accomplish all of its varied and diverse functions under current staffing and funding levels. However, despite significant changes in the Bureau's programs such as the enactment of the Federal Land Policy and Management Act of 1982, the basic organizational structure has changed little since 1966. The Bureau and its primary constituents have been reluctant to make or support needed changes; consequently, program performance has been adversely impacted because of inherent organizational inefficiencies." Mr. Richards explained that too many Bureau staff members were involved in overhead and supervisory types of activities, which left insufficient staff to perform direct program operations. For instance, over half of the Bureau's personnel resources at the state and district office levels were devoted to administrative support and duplicative program oversight duties rather than to operational functions such as protecting the Federal lands, performing oil and gas inspections, and planting trees. This condition occurred because the organizational structure, composed of three field office levels, was inefficient and often redundant. Mr. Richards further explained that our report had recommended that the Bureau develop and implement a reorganization plan for its field offices that would result in a reduction in administrative and program oversight costs.

To date, the Bureau has not fully addressed the organizational inefficiencies noted in our staffing report, nor has it corrected the accounting and reporting problems noted in our forestry reports, as well as in numerous other reports issued on Bureau activities. We continue to believe that the Bureau could accomplish substantially more of its program mission, goals, and objectives (including forestry operations) if it better utilized the resources it does have; however, we acknowledge that the Bureau has not requested or received sufficient funding to reduce all program backlogs, including forestry. Further, because of the improper accounting practices noted in our reports, the Bureau cannot accurately account for individual program costs of any program, including FTE costs associated with its forestry program.



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If you have additional questions regarding our audit report, please call me at (202) 208-5745.

Sincerely,

Joyce N. Fleischman
Acting Inspector General

Enclosure



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